



Dechra Pharmaceuticals PLC
Annual Report and Accounts for the year ended 30 June 2020



Improving Global Animal Health and Welfare

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Welcome to Dechra's 2020 Annual Report

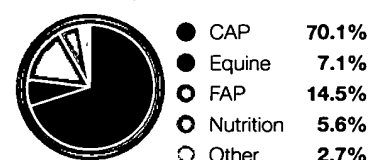
About Dechra Pharmaceuticals

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

Our Products

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

Revenue Split by Product



Companion Animal Products (CAP)

Species: Dogs and cats

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

Equine

Species: Horses and ponies

Key therapeutic sectors: Lameness and pain management

Food producing Animal Products (FAP)

Species: Poultry, pigs and an increasing presence in cattle

Key therapeutic sectors: Water soluble antibiotics, poultry vaccines, the treatment of mastitis, lameness and pain management

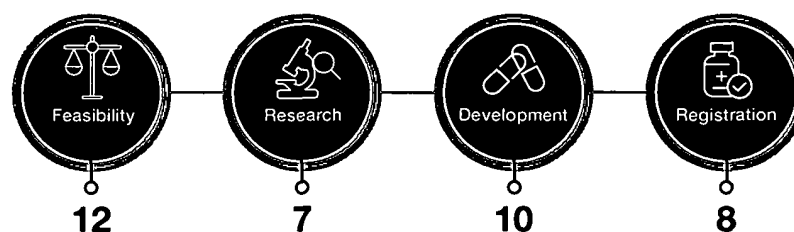
Nutrition

Species: Dogs and cats

Key therapeutic sectors: Our pet diets are available to support the wellbeing of animals with numerous therapeutic conditions

Our Product Pipeline

A key strategic priority for the Group is the delivery and strength of the pipeline. We currently have 37 projects through the product development process:



→ Read more about Product Development on pages 40 to 43

Chairman's View

The true strength of the Group's Culture and Values have come to the fore during the pandemic

Tony Rice
Non-Executive Chairman

Our Purpose

is the sustainable improvement of global animal health and welfare

→ Read more about Our Purpose and its alignment with our strategy, values and culture on pages 04 and 05

→ Read more about Our Purpose and its application to our business model on pages 14 to 16

Welcome to the 2020 Annual Report in which you will read about the strong performance in a year impacted by the COVID-19 pandemic.

The true strength of the Group's Culture and Values have come to the fore during the pandemic and have been demonstrated by the response from our employees.

Employees

I would like to express the thanks of myself and the Board to each and every one of our employees for their continued hard work and dedication throughout the year, especially during the lockdown period. I have been extremely impressed by the versatility of all our teams in adapting to new ways of working and responding to the COVID-19 pandemic in such a positive manner. I would, in particular, like to thank our front line workers in manufacturing, laboratories and logistics who have continued to work on-site throughout the period with dedication and professionalism. Our employees' actions during this period have demonstrated to the Board how our Values underpin everything we do at Dechra. They outline the type of people we are, the services we provide and the way we aim to conduct business.

Environmental, Social and Governance

During the year we have seen an increased interest from investors in our Environmental, Social and Governance framework. On analysing this interest we have realised that although our Culture and business practices are very strong in this critical area, our disclosures could be vastly improved. We have made concerted efforts in this Annual Report and on our website to publish more detailed information. Dechra's purpose is the sustainable improvement of global animal health and welfare and this is intrinsic in our Values, the way we do business and in the decisions we make when developing and implementing our Environmental, Social and Governance (ESG) framework.

We look forward to keeping you and the market updated on the delivery of our strategy throughout the coming year.

Our ESG Strategy

Our new ESG strategy is based on our Purpose and Values

We have chosen to support the United Nations Sustainable Development Goals (SDGs). Three SDGs have been identified as being most material to our business operations and the products we sell. They are Quality Education, Decent Work and Economic Growth, and Responsible Consumption and Production.



→ Read more about our ESG strategy on pages 48 to 68

Dechra's Strengths

Market Leading Positions

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

Well-Recognised Brand

We are recognised as a global animal healthcare company with a strong reputation as a provider of high quality, specialist veterinary medicines and related products.

Expertise in Key Therapeutic Areas

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

→ Read more in the **Our Business Model** report on pages 14 to 16

Balance Sheet Strength/ Cash Generative Power

The Group targets strong cash generation allowing us to pay down debt quickly, resulting in a robust balance sheet which enables us to fund internally many of our strategic opportunities.

Successful Acquisition History

In January 2008 we made our first major acquisition which, at the time, was transformational to our EU Pharmaceuticals business. We have successfully replicated the model since then on numerous occasions and have consistently delivered strategic and financial expectations on significant transactions.

New Product Development Pipeline

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

→ Read more in **Product Development** on pages 40 to 43

Manufacturing

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

Skilled People

We have attracted and retained a qualified and skilled workforce throughout the organisation with many years' experience within the markets we serve. Our people strategy is underpinned by the Dechra Values.

→ Read more in the **Corporate Social Responsibility** report on pages 52 to 55

Key Relationships

Relationships with stakeholders are fundamental to the success of the Group. Our sales approach relies on strong partnerships with practice groups and individual veterinarians, strengthened by key opinion leaders and distribution partners. The relationship with supply chain partners is also important to establish continuity of supply. Effective and consistent industry networking delivers insight to new development and acquisition opportunities.

Our Global Footprint

Dechra's traditions lie in the companion animal markets of Western Europe and North America. In recent years we have built on that platform, extending our footprint globally through greenfield sites and acquisitions. Further international expansion is one of our four strategic growth drivers.

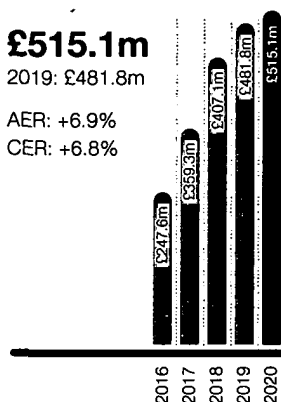
Highlights

Total Revenue

£515.1m

2019: £481.8m

AER: +6.9%
CER: +6.8%

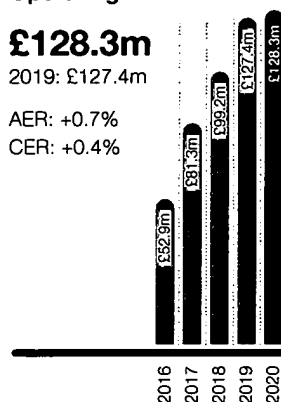


Underlying Operating Profit

£128.3m

2019: £127.4m

AER: +0.7%
CER: +0.4%

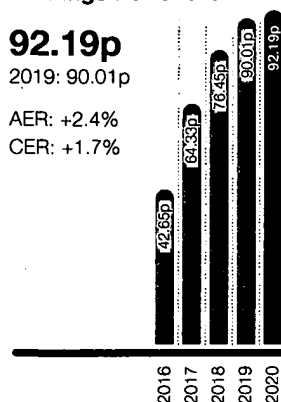


Underlying Diluted Earnings Per Share

92.19p

2019: 90.01p

AER: +2.4%
CER: +1.7%



Financial Performance

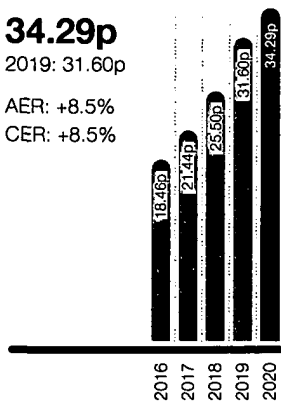
- Revenue growth of 6.8% to £515.1 million.
 - Underlying operating profit increased to £128.3 million.
 - Underlying EBIT margin (excluding the impact of pension credit) reduced by 80 bps to 24.9% due to mix effect.
 - Underlying diluted EPS increased by 1.7% to 92.19 pence.
 - Reported operating profit growth of 33.3%.
 - Full year dividend increased by 8.5% to 34.29 pence.
 - Strong cash generation with cash conversion of 99.4%.
- ➔ Read the Financial Review on pages 26 to 33

Dividend Per Share

34.29p

2019: 31.60p

AER: +8.5%
CER: +8.5%

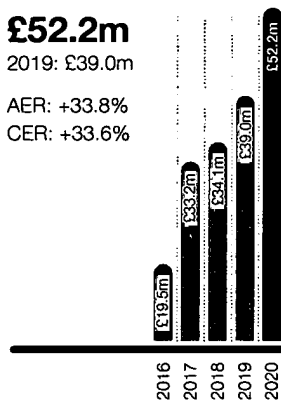


Reported Operating Profit

£52.2m

2019: £39.0m

AER: +33.8%
CER: +33.6%

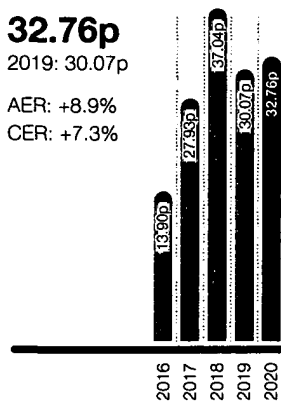


Reported Diluted Earnings Per Share

32.76p

2019: 30.07p

AER: +8.9%
CER: +7.3%



Strategic Progress

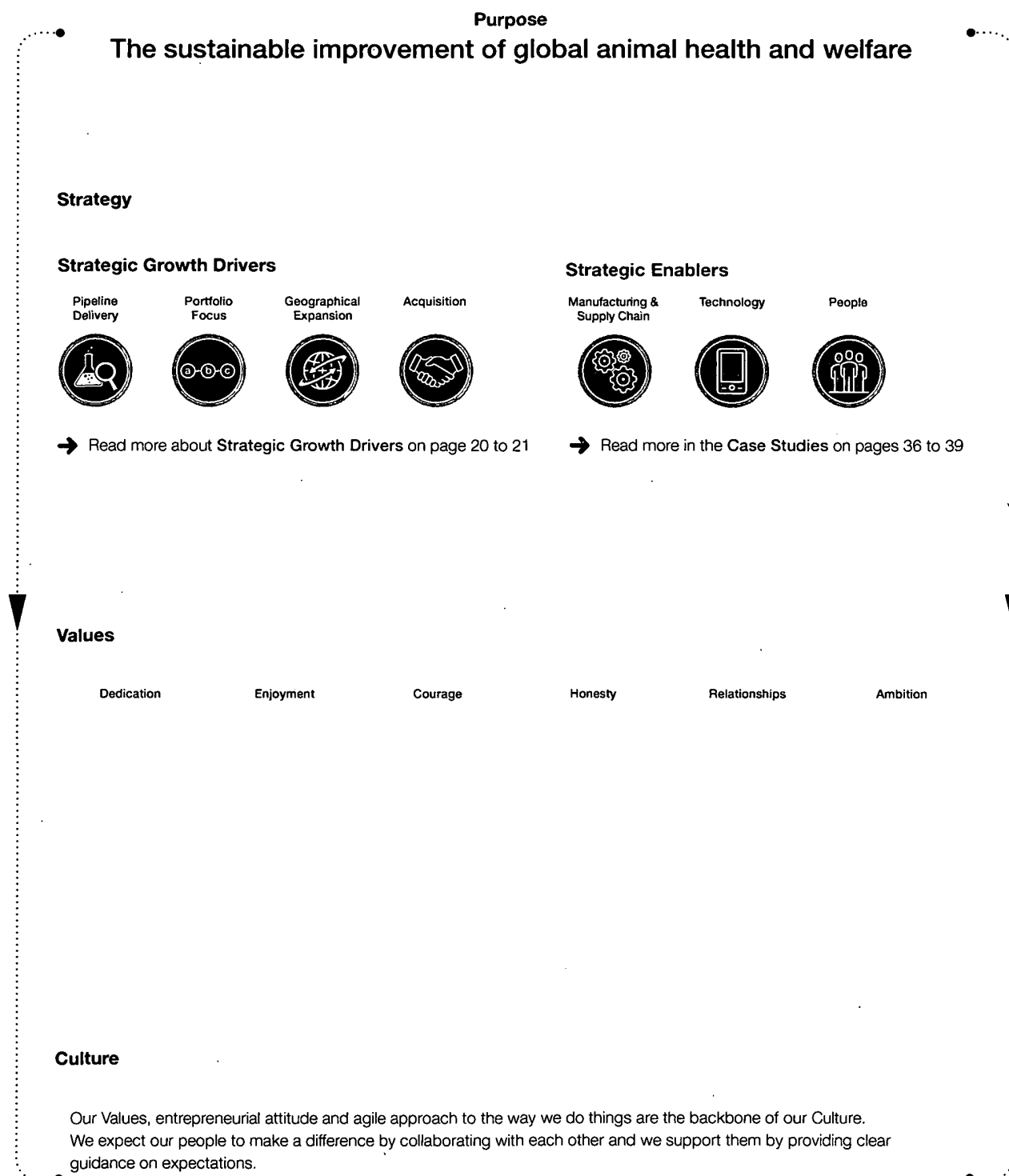
- Ampherco integration progressing well, Mirataz acquisition completed in April 2020 and Osurnia completed in July 2020.
 - CAP performance robust.
 - FAP growth accelerating.
 - Numerous product registrations achieved, and significant progress made on Akston and Tri-Solfen.
- ➔ Read more about Our Strategy on pages 18 to 21

View our online Annual Report at:
dechra.anualreport2020.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.

Our Purpose and Strategy



Aligning Purpose, Strategy, Values and Culture

Everything we do is underpinned by our Culture and Values. They are important to us and have helped drive the Group's success. We believe that our Values encapsulate our business ethics and set out the standards that we wish to achieve and ultimately exceed. They outline the type of people we are, the services we provide and the way we aim to do business. We deliver high quality products and services to veterinarians worldwide through our employees and a network of third parties with the aim of sustainably improving global animal health and welfare.

Global Policies that support Culture:

- Code of Conduct and Third Party Code of Conduct
- Dignity at Work
- Anti-Bribery and Anti-Corruption Policy
- How to Raise a Concern Procedure
- Health and Safety Policy

Dechra Values:

Our Values are a consistent part of how we lead the Dechra business. From recruitment through to investment in development and growth of our employees we use our Values to describe what matters at Dechra. To maintain that integrity we have formed a small group of communications ambassadors who have helped us build the content for the Group intranet further enabling us to demonstrate how the Values are being lived every day.

As the Dechra business grows through acquisition, we have recognised the importance of onboarding new employees into the Dechra way and enabling them to share and build on our Values as a route to unlocking value and success.

➔ Read more about our monitoring of culture in **Our Governance Report** on pages 86 to 88.

Our Geographical Footprint

We currently have sales and marketing organisations in 25 countries and market our products in 72 other countries worldwide through distributors or marketing partners.

72

Countries in which our products are sold via a distributor

25

Countries in which our sales and marketing teams are based

7

Countries in which we manufacture



52.9%

Group revenue by region



37.2%

Group revenue by region

Key to map

- Manufacturing Sites
- Logistics Sites
- Established markets (Sales and Marketing)
- Developing markets (Sales and Marketing)
- Emerging markets (Distribution Partners)

Sales

£515.1m

Growth

6.8%

at CER from 2019 to 2020

Geographical Expansion is one of our Growth Drivers

→ Read more about Our Marketplace on pages 10 to 13

9.9%

Group revenue by region

Rest of World

Dechra has manufacturing facilities and a Product Development and Regulatory Affairs presence in **Australia** and **Brazil**. Dechra Veterinary Products markets and sells Dechra's products in 45 countries either via its sales and marketing organisations (**Australia, New Zealand (ANZ)** and **Brazil**) or via distributors.

Major geographies:
ANZ, Asia and Brazil

Our strategic growth drivers ensure sustainable growth

Pipeline
Delivery



Portfolio
Focus



Geographical
Expansion



Acquisition



→ Read more about Our Strategy on pages 18 to 21

Growing Our Global Influence on Improving Animal Health and Welfare

We have continued the expansion of our product portfolio and global reach, with the 18th, 19th and 20th acquisitions in Dechra's history.

Acquisitions

Ampharmco

Acquisition date:

August 2019

Cost of acquisition:

\$29.6 million

Key benefits of acquisition:

- Acquisition of manufacturing facilities to establish a US manufacturing base for Dechra
- Addition of CAP portfolio products

Mirataz

Acquisition date:

April 2020

Cost of acquisition:

\$43 million

(excluding royalty fees)

Key benefits of acquisition:

- First and only FDA and EMA approved transdermal medication for management of weight loss in cats
- A new global brand to add to the Dechra portfolio marketed in US and licensed in all EU markets. Registered in 32 countries globally

Osumnia

Acquisition date:

July 2020

Cost of acquisition:

\$135 million

Key benefits of acquisition:

- Acquisition of a long-acting treatment of otitis externa in dogs
- New global leading brand to add to Dechra portfolio
- Registered in 51 countries around the world

→ Read more about our **Our Strategy** on pages 18 to 21

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Our Marketplace

Global Market Dynamics

The Animal Health Market

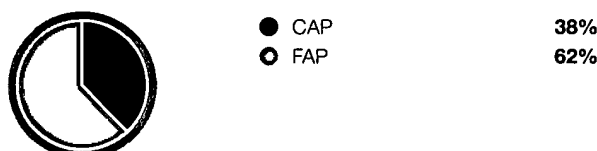
Animal health globally is generally described as comprising two segments: Food producing Animal Products (FAP) and Companion Animal Products (CAP). FAP continued to show global growth due to an increased demand for high quality protein production. CAP growth (a sector in which horses are generally included)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

\$47.1bn

Market Size

Source: Grand View Research 2019

The Animal Health Market by Species



Source: Vetnosis Health for Animals 2018

Market Share by Competitor 2019



Source: Animal Pharma 2020 & Grand View Research 2019

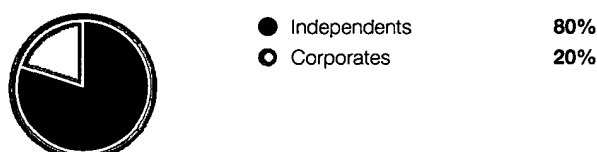
Data as at 31 December 2019 except Dechra and Philbro (as at 30 June 2019)

Veterinary Practices – Europe



Source: DVP EU Sales Data March 2020

Veterinary Practices – North America



Source: Cleveland Research 30 June 2019

Our Position in the Animal Health Market

There are few international businesses in our market, five of which have 43.7% of the world's market share. Dechra's objective is to continue to outperform the market and increase its market share, through the execution of its strategy.

Animal Pharmaceuticals vs. Human Pharmaceuticals

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, adhere to complex and highly regulated product manufacturing, and market products based on approved clinical claims. However, there are also significant differences between animal and human pharmaceutical businesses, including:

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

Types of Veterinary Practices

The majority of our sales are made into veterinary practices that tend to specialise in either companion animal or food producing animal treatment; however, there are numerous practices that are classified as mixed and service all species. There is also an increasing number of equine practices and referral hospitals that provide high levels of specialisation. The veterinary profession is going through significant change as incorporated practice groups are consolidating practices at an increasing rate.

In many countries, our relationships with these corporate groups are very important, and we continue to increase our focus through experienced key account managers and technical support services. With the ongoing integration of professional farming units, our Food producing Animal Product sales efforts are now often focused on these major integrators; however, the integrators themselves employ veterinarians who remain responsible for the prescribing and administration of our products.

Key Trends and Our Response

1

Market Trends

Recent market trend: The recent trend of the distributors looking to change their historic veterinary supply route to provide a direct to consumer (dog and cat owner) model.

Our Response

Our products are predominantly Prescription Only Medicines (POMs), so our ultimate partner in the supply chain will remain the veterinarian who will continue to write a prescription. Through education, technical support and innovation, we endeavour to ensure the medicine prescribed and dispensed continues to be for a Dechra product.

2

Market Trends

Ongoing market trend: The veterinary profession has been going through a period of change for several years as corporates are continuing to consolidate independent practices.

Our Response

Our relationship with these groups is very important; we are increasingly focused on key account management. We have modified our sales and marketing approach to focus on building relationships with our corporate and buying group customers and to understand better their needs and expectations. We have dedicated corporate account teams in Europe and North America.

3

Market Trends

Ongoing market trend: We have seen growth in the companion animal market for many years due to veterinarians' capabilities, improved nutrition, increased longevity of pets and the owner's willingness to continue to increase spending on pets. This trend has historically been in Western Europe, North America and other selected markets; however, in the developing world we are now seeing the status of pets increase, creating new markets.

Our Response

We will continue to innovate in specialist medicine and increase our portfolio in our key areas of therapeutic specialisations. To further the optimal use of our medicines we are increasing the provision of technical support services through experienced veterinarians. We are also expanding our geographical footprint and investing money in product registration in new developing markets.

4

Market Trends

Ongoing market trend: The veterinary market is seeing a continued increase in global regulatory requirements and quality production standards through more stringent site inspections.

Our Response

We are strengthening our regulatory teams so we can comply with the respective medicines agencies' requirements and expanding our quality function to enable manufacturing sites to produce products to meet the highest standards.

5

Market Trends

Long term market trend: With the global increase in population and the improvement in developing countries' economies, there is a huge increase in demand for high quality animal protein and dairy products.

Our Response

We are consistently strengthening our FAP business both with new products and by international expansion. We are enhancing our range which includes our market leading swine and poultry water soluble antibiotics, and with our vaccines we are increasing our registration activity to obtain marketing authorisations in new markets. We also own the global marketing rights (excluding ANZ) to Animal Ethics' ethical pain treatment for farm animals, Tri-Solfen®, which we are registering for sheep, cattle and pigs in numerous global markets.

Our Marketplace continued

Product Market Dynamics

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

CAP

70.1% of Group Revenue

Species: Dogs and cats.

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

Products: The majority of products in our portfolio are Prescription Only Medicines (POMs) prescribed, administered and dispensed by veterinarians working in companion animal practices. We also have a range of associated non-prescription products which complement the licensed pharmaceuticals, such as ear cleaners, dermatologically active shampoos and other topical and nutritional supplements.

Market Description: The principal driver of growth in companion animal markets is the pet owners' compassion for their animals. The market has historically been orientated around developed countries such as Western Europe, North America, Australia and Japan. However, with increasing wealth in several developing regions, the companion animal market is now also emerging, particularly in South America and Eastern Europe.

Key Trends Shaping Our Markets: Expenditure on companion animals continues to grow due to increasing pet ownership, advances in nutrition, increased competence in managing complex conditions by veterinarians, preventative healthcare and wellness and by increasing availability of more specialist pharmaceuticals.

Our Market Position: This is the basis upon which Dechra established its market position and continues to be our strongest sector. Dechra has developed a strong reputation in providing specialist and clinically necessary novel products. We also supply a range of products which complement these products in key therapeutic sectors where we are seen as the company of choice by many veterinarians.

FAP

14.5% of Group Revenue

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

Key therapeutic sectors: Water soluble antibiotics, poultry vaccines, the treatment of mastitis, lameness and pain management.

Products: Our products are predominantly POMs that are prescribed by veterinarians who work in either specialist veterinary practices or professional farming units.

Market Description: As over 60% of all global animal health sales are FAP, Dechra is underweight relative to the market and our competitors and it is an increasing area of focus.

Key Trends Shaping Our Markets: The key driver for growth in this sector is a huge increase in the global demand for high quality animal protein and dairy products. Vaccines are the biggest growth sector of the veterinary market and are anticipated to continue to outgrow therapeutic treatments. There is also a growing awareness of the need for better animal welfare standards, including pain control during procedures such as pig castration and tail docking in sheep.

Our Market Position: Dechra entered the FAP sector through the acquisition of Eurovet in 2012; it currently represents 14.5% of revenue. The majority of our sales are currently antibiotics which are sold mainly into Europe. Western Europe has been extremely proactive over the last five years in reducing antibiotic use due to concerns over antimicrobial resistance and 'super bugs'.

Dechra's portfolio is positioned to match current best practice prescribing habits. Additionally, our Brazilian vaccines business and Croatian poultry vaccines are providing growth and are anticipated to continue to provide growth opportunities in future years as we seek global registrations.

Equine

7.1% of Group Revenue

Species: Horses and ponies.

Key therapeutic sectors: Lameness and pain management.

Products: Dechra offers a wide range of products supporting the equine veterinarian, from pain management to products for anaesthesia, dermatology, critical care, reproduction and euthanasia.

Market Description: Veterinarians that specialise in horses operate out of either mixed practices or, increasingly, specialist equine centres. There are approximately seven million horses in the USA, approximately one million horses in France and Germany and less than one million in the UK. As such the market potential is limited. The market can be divided roughly into high performance sports horses, leisure horses and ponies.

Key Trends Shaping Our Markets: The market is variable and can be linked to the economy; however, high value, insured, sports horses will be treated at almost any cost.

Our Market Position: This is a sector in which few animal health companies specialise due to the relatively small number of horses in the world and the fact that in the majority of European countries the horse is classed as a food producing species which adds complexity to the licensing process.

Dechra has developed a strong position in lameness and pain management with unique products that have superior efficacy compared to historic treatments.

Nutrition

5.6% of Group Revenue

Species: Dogs and cats.

Key therapeutic sectors: Our pet diets are available to support the wellbeing of animals with numerous therapeutic conditions.

Products: Our range of pet foods is predominantly focused on high quality nutrition to support therapeutic conditions in dogs and cats such as allergies, obesity, heart disease and kidney disease.

Market Description: The global pet food market is huge and dwarfs the animal health pharmaceuticals market. The veterinarian's recommendation is respected by pet owners which allows them to take a small but significant part of this nutrition market.

Key Trends Shaping Our Markets: Expenditure on companion animals continues to grow due to increasing pet ownership, advances in nutrition and increased competence in managing complex conditions in dogs and cats such as allergies, joint disorders, obesity, heart disease and kidney disease.

Our Market Position: Dechra's focus is predominantly therapeutic diets which are not available for self-selection through supermarkets and require advice from the veterinarian. There are very few competitors in this specialist sector of the pet food market and although we compete with huge global multinational companies, we are able to differentiate our position through the use of higher quality ingredients and through innovation. The ability to offer our wide range of products, branded Specific®, is necessary to remain competitive in this sector.

Our Business Model

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

Our Offering to Veterinarians

Innovative Products that Treat a Range of Conditions

Dechra develops and manufactures drugs and therapies to improve the prevention, diagnosis, care and treatment of animals.

Value created for veterinarians: Our products give veterinarians the solutions they need in the treatment of animals. The majority of Dechra's key products are novel or have clear advantages over competitor products. This allows veterinarians to offer a high standard of care to animals that they treat.

Educational and Training Programmes

We offer high level educational programmes focused on the diagnosis and treatment of conditions in our key therapeutic areas. We deliver this education through many channels, including major conferences, regional groups, individual practices and increasingly through digital channels.

Value created for veterinarians: We help to improve the knowledge and education of veterinarians. These programmes are certified to offer veterinarians and veterinary nurses the continuing professional education hours they require to maintain their professional qualification.

Customer Support

Dechra provides high levels of technical support and pharmacovigilance through helplines in every country in which we operate.

Value created for veterinarians: These helplines provide veterinarians with support on how best to use our products and free advice on any difficult or complex cases that may be encountered. This enables veterinarians to be fully informed and have the knowledge they need to apply best practice approaches to their care and treatment of animals.

How This Fulfils Our Purpose

Our products enable the improvement of animal health and welfare. Our customer support, educational and training programmes help to inform veterinarians around the globe and further improve animal health and welfare.

Our Key Resources and Relationships

Values

Our Culture and Values are important and have helped drive the Group's success.

People

Our people strategy underpins everything we do in the business. We have a well defined plan to build talent, develop people and strengthen the Dechra Culture.



Technology

We are implementing a strong technology platform to enable us to operate efficiently. We also offer Continuing Professional Development (CPD) training via our e-learning system (the Dechra Academy) to veterinarians and veterinary nurses.



Relationships and Partners

Our sales approach relies on strong partnerships with practice groups and individual veterinarians, strengthened by key opinion leaders and distribution partners. The relationship with supply chain partners is also important to establish continuity of supply.

Financial Resources

Our strong cash generation allows us to pay down debt quickly, resulting in a robust balance sheet which enables us to fund internally many of our strategic opportunities.



Technology



People



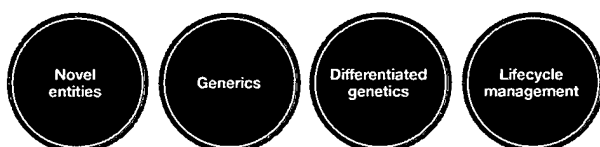
Manufacturing and Supply Chain

→ Read Delivering Our Strategy on pages 18 to 21

Innovation, Development and Registration

Manufacturing

Product Development Portfolio



→ Read more about Our Product Development on pages 40 to 43

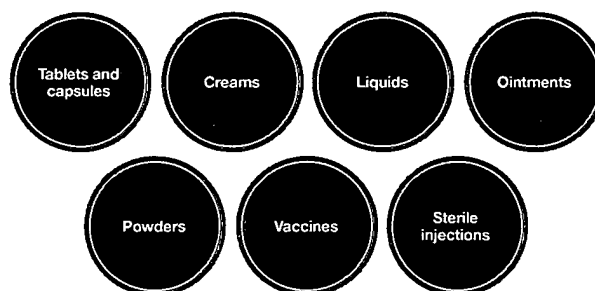
Product development ideas are generated in numerous ways, including:

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

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

Our formulation and development laboratories are located at our manufacturing sites which allows manufacturing and product development to work closely together to scale up to commercial production, which is crucial for in-house product development. After opportunities have been identified we have an evaluation phase where we assess opportunities and ideas to determine whether we can technically manufacture the product and whether it is commercially viable to do so. Once a product has been classed as suitable for development it will be allocated to an internal development team who will be responsible for taking the product all the way through feasibility, research and development to regulatory submission. Once all the studies are concluded, if the product reaches the required safety, efficacy and stable chemical formula, regulatory dossiers are prepared for registration and filing with the relevant regulatory authorities.

Range of Competencies



Manufacturing

Manufacturing is a key competency of the Group; the prime objective is to deliver safe, efficacious, cost-effective, quality products. We have a wide range of competencies across our eight sites including tablets, creams, liquids, ointments, powders, vaccines and sterile injections that can be packed in a multitude of different presentations, which facilitates the manufacture of less than 50% of our products in-house. However, there are other competencies and dosage forms that we do not have along with long term agreements that prevent manufacture in-house of the other products.

Batch runs for veterinary medicines are often relatively small compared to human production. Therefore, in some instances, outsourcing can prove difficult and expensive. Our Contract Manufacturing Organisation (CMO) network is an important part of our business.

Supply Chain

Our Customers

Sales and Marketing



Our products are distributed to wholesalers and distributors through two major logistics sites. Our European and International markets are serviced from our own logistics facility based in Uldum, Denmark and North America is supplied out of a third party logistics supplier in Kentucky. The principal objective is to deliver a customer's order on time and in full every time.

The majority of veterinary practices are supplied through specialised veterinary wholesalers that operate as one-stop shops. They stock the majority of items veterinary practices need and offer high levels of service, often with a next day delivery. These wholesalers generally are not proactive in selling product; they predominantly supply to demand where the demand is driven by Dechra's own sales activities within veterinary practices.

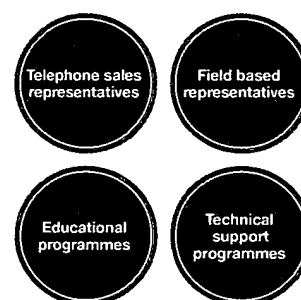
There are a few markets where we offer direct supply, such as Germany and the Netherlands that are not fully supported by veterinary wholesalers or where legislation enforces all pharmaceuticals to be sold through pharmacies, such as Denmark, Italy, Norway and Sweden.



All our products and sales and marketing activities are targeted at veterinary professionals. The majority of veterinarians prescribe and dispense the drugs, although there are a few territories in the world where the veterinarian writes a prescription and the drugs are purchased by the animal owner at a pharmacy.

The majority of our products are POMs; however, we have a range of complementary non-prescription products. Our product range includes both novel and generic products in key therapeutic areas, in particular endocrinology and anaesthesia and analgesia.

Generating Demands for our Products



Dechra operates its own sales force and provides in-house marketing and technical support in 25 countries, predominantly in Europe and North America. In almost all of these countries we have highly skilled field based representatives who make regular calls with all major veterinary practices. The representatives' brief is to sell the product on a technical basis, outlining the beneficial aspects of our products and to provide educational support on how best to treat animals in our key therapeutic areas. We also provide high levels of technical support and pharmacovigilance through helplines in every country in which we operate. These helplines provide veterinarians with support on how to best use our products and free advice on any difficult or complex cases that may be encountered.

The relationship with veterinarians is key and, to this end, we provide added value services. We offer high level educational programmes focused on the treatment of conditions in our key therapeutic sectors. We deliver this education through many channels, including major conferences, regional groups, to individual practices and increasingly through digital channels.

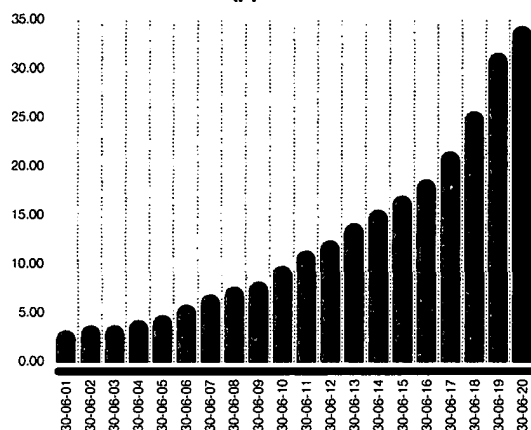
These programmes are certified to offer veterinarians and veterinary nurses the continuing professional education hours they require to maintain their professional qualification.

Creating Value For Our Stakeholders

Shareholders

We have consistently delivered on our strategic objectives resulting in a strong record of growth.

Dividend Per Share (p)



20

**Years of Dividend
per Share Growth**

34.29

**Total Dividend per
Share in 2020**

People

Our employees are our greatest asset. We employ 1,889 employees in 25 countries in a wide range of working environments. Our ongoing objective is to continue to be a high performing business, driven by highly skilled and committed teams.

182

New Employees

239

**Delta (Employee)
Training Courses**

Communities

We contribute to the social and economic welfare of the local communities in which we operate. Our community ethos is aligned with our business Purpose and Values.

935

Service Hours

£279.5k

Total Donations

Veterinary Professionals

We provide high levels of service, technical support and educational training to develop a strong relationship with, and be recognised as an important partner to, veterinarians.

We invest in our Manufacturing and Supply Chain competencies to meet demand.

334

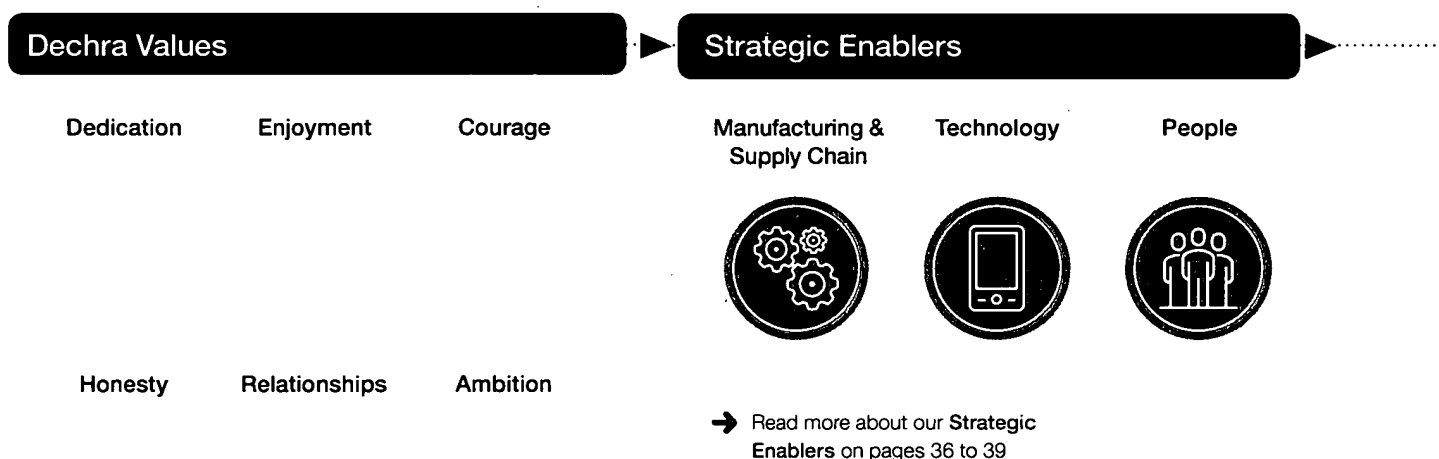
**Veterinary
Academy Courses**

39,067

**Shipments from
Uldum, Denmark**

Delivering Our Strategy

Since 2013, we have clearly defined and communicated our priorities for each Strategic Growth Driver and Enabler and these are outlined in the table on pages 20 and 21. In this section of the Annual Report we describe the progress we have made towards achieving our strategic objectives.



1,327

Product registrations

40

Countries distributed to

13

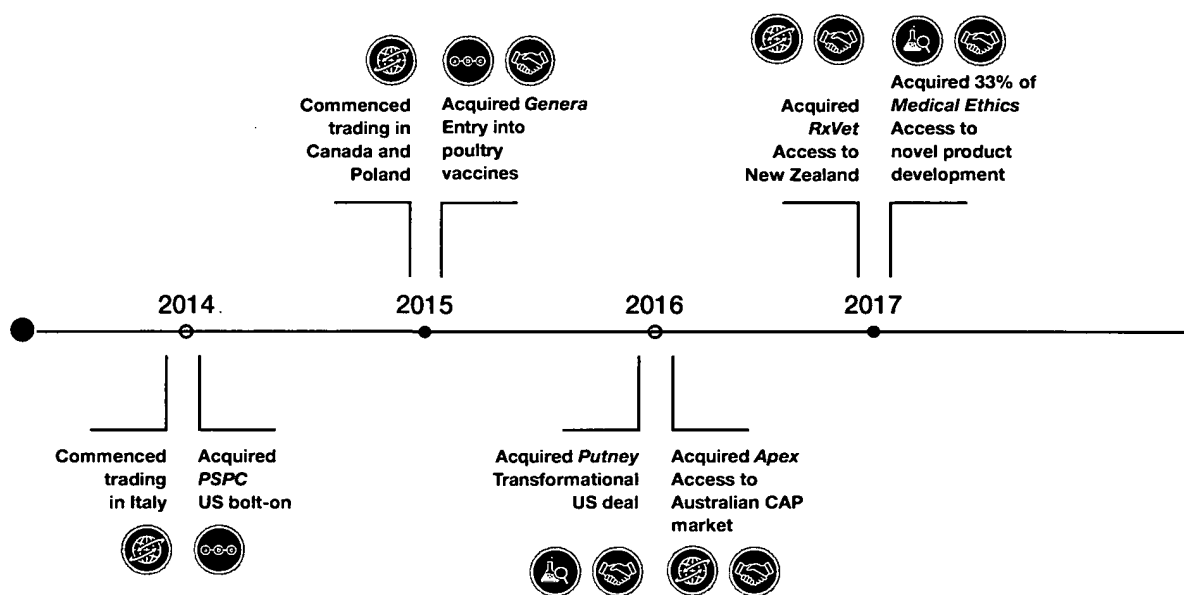
Countries with own sales and marketing organisations

3

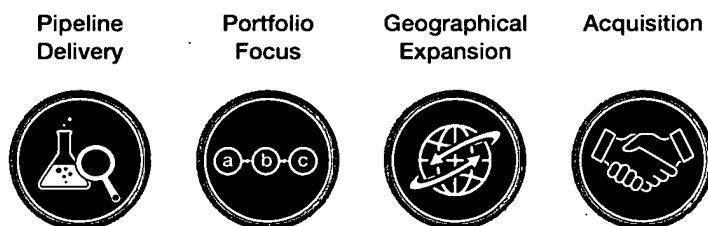
Manufacturing sites

1,287

Employees

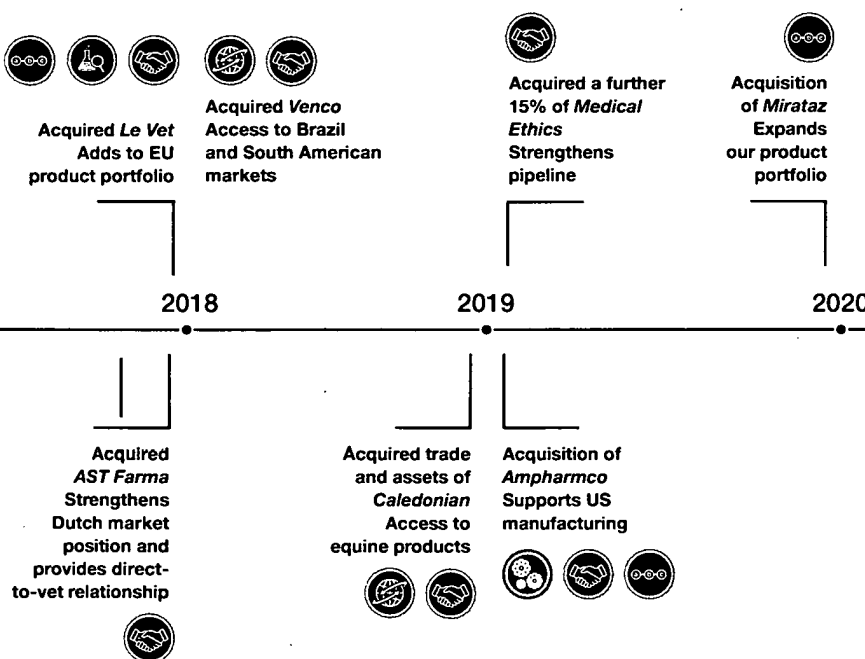


Strategic Growth Drivers



Global specialist veterinary pharmaceuticals and related products business

Generate long term value for shareholders



5,388

Product registrations

72

Countries distributed to

25

Countries with own sales and marketing organisations

8

Manufacturing sites

1,889

Employees

Delivering Our Strategy continued

Our Strategic Growth Drivers	Our Achievements		
	2016	2017	2018
Pipeline Delivery  Deliver our pipeline on time, at the right costs and with the expected returns. Refill the pipeline so that we get a constant flow of new products in future years.	<ul style="list-style-type: none"> Zycortal® approved and launched in the USA in March 2016 and in 14 European markets Osphos launched in 17 additional European countries Several FAP approved, notably Phenocillin® and Solamocta® (for turkeys and ducks) launched in 18 other territories 	<ul style="list-style-type: none"> Signed Animal Ethics licensing agreement, and building pipeline of other in-licensing opportunities Vaccines development strategy defined and new opportunities identified Amoxi-Clav tablet development completed A number of minor FAP market authorisations gained 	<ul style="list-style-type: none"> Two further poultry vaccines registered in EU: Avishield® IBH120 and ND B1 Launch of further Amoxi-Clav dose sizes to complete range for the USA market In-licensing of major new products including Redonyl® Ultra, Vetrudent® and BioEquin® Progress in co-development licensing opportunities
Portfolio Focus  Maximise our revenue by increasing market penetration, focusing on targeted therapeutic sectors within CAP, Equine, FAP and Nutrition.	<ul style="list-style-type: none"> Double digit growth in key therapeutic areas Roll-out of digital technologies progressed to plan, with the implementation of our Learning Management System, Delta, enabling product training to be disseminated to sales representatives 	<ul style="list-style-type: none"> Strong CAP and Equine growth continuing across the Group, FAP returned to growth Increased effective use of CRM tools in EU and NA Expanded sales force effectiveness training Unblocking of distribution channels for Putney products in the US opened up market for enlarged NA business growth 	<ul style="list-style-type: none"> Resolution of Nutrition supply and palatability issues, and launch of refreshed cat diets Strong growth in European FAP following antibiotic product alignment and range additions Leveraging CAP product success to increase penetration across Group Continued growth in Equine, with stronger growth in Europe from market penetration and range addition
Geographical Expansion  Leverage our product portfolio into new geographic regions through distribution partners, in-country presence and new country product registrations.	<ul style="list-style-type: none"> Regulatory approvals were obtained in several countries such as Brazil, Egypt and Sri Lanka New start-up in Austria 	<ul style="list-style-type: none"> Several international product registrations achieved Established Dechra Veterinary Products (DVP) International business Commenced appointment of the DVP International team 	<ul style="list-style-type: none"> Over 80 new country registrations of existing portfolio products Acquisition of RxVet expanded our presence in New Zealand Successful establishment of the DVP International team Development of international registrations strategy and prioritisation plan
Acquisition  Expand our geographical footprint and/or enhance our product portfolio through acquisition.	<ul style="list-style-type: none"> Three acquisitions completed: Genera, Brovel and Putney Putney integration helped strengthen our USA presence Genera integration on plan, new business structure defined Registration process of Dechra products commenced in Mexico 	<ul style="list-style-type: none"> Successful integration and operation of Genera, Brovel, Putney and Apex Acquisition of Apex, opening up new bridgehead into Australasia and South East Asia Acquisition of 33% of Medical Ethics Pty Ltd provides the Group with secure access to novel therapeutic areas/product development 	<ul style="list-style-type: none"> Acquisition and successful integration of RxVet, expanding our presence in New Zealand First full year of Apex Acquisition and successful initial integration of AST Farma and Le Vet, providing transformation in EU Pharmaceuticals' portfolio and pipeline
Strategic Enablers  Our strategic enablers, Manufacturing and Supply Chain, People and Technology, support the execution of our strategy.	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Developed new Manufacturing and Supply Chain strategy Ongoing progress in Oracle deployment IT user hardware standardised across the Group 	<ul style="list-style-type: none"> Progress made in Manufacturing remodelling strategy, in Zagreb and Bladel 12 months without a lost time accident Completion of employee engagement survey Successful implementation of the Oracle project in DVP EU

Key to KPIs:

- ① Revenue Growth
- ② Underlying Diluted EPS Growth
- ③ Return on Capital Employed
- ④ Cash Conversion
- ⑤ New Product Revenue
- ⑥ Lost Time Accident Frequency Rate
- ⑦ Employee Turnover

Key to Risks:

- ① Market Risk
 - ② Competitor Risk
 - ③ Product Development and Launch Risk
 - ④ Supply Chain Risk
 - ⑤ Regulatory Risk
 - ⑥ Acquisition Risk
 - ⑦ People Risk
 - ⑧ Antibiotic Regulatory Risk
 - ⑨ Retention of People Risk
- No change ● Increasing risk

Our Achievements 2019	Our Progress 2020	Future Priorities	Link to KPIs and Risks
<ul style="list-style-type: none"> Entered into a number of licensing agreements, including a novel canine sedative and an equine gastrointestinal product A number of novel and generic registrations in EU, Mexico and rest of world 15 product launches from Le Vet pipeline 	<ul style="list-style-type: none"> Marboquin tablets, a CAP antibiotic, approved in USA Cosacthen® approved in 23 EU territories and Canada Akston proof of concept study commenced 	<ul style="list-style-type: none"> Secure additional novel and innovative opportunities for the Group Progress pipeline development programmes for key projects such as Akston and Tri-Solfen® 	<p>① ② ③ ④ ⑤</p> <p>② ③ ④ ⑤ ⑨</p> <p>➔ Read more about Product Development on pages 40 to 43</p>
<ul style="list-style-type: none"> Moved key Le Vet products from distributors to Dechra marketing companies to generate significant synergies through retention of full margin and enhancing sales focus Development and launch of Dechra Dog & Cat Anaesthesia App FAP growth accelerating against a backdrop of declining antibiotic markets 	<ul style="list-style-type: none"> Delivered growth across all key therapeutic sectors through educational focus Continued to generate significant synergies from AST Farma and Le Vet acquisition 	<ul style="list-style-type: none"> Continue to outperform organically the markets in which we operate Maximise key brands market penetration 	<p>① ② ③ ④ ⑤</p> <p>① ② ④ ⑤ ⑧</p> <p>⑨</p> <p>➔ Read more about our Product Categories on pages 12 and 13</p>
<ul style="list-style-type: none"> Expanded into Latin America via the acquisition of Laboratorios Vencofarma do Brasil Ltda (Venco) 43 Product registrations across Israel, South Korea, Macau, Macedonia, Malaysia, Malta, Namibia, Serbia, Ukraine, UAE and Zambia ANZ business leveraged by Caledonian bolt-on 	<ul style="list-style-type: none"> 34 product registrations across Indonesia, South Korea, Myanmar, Nicaragua, Oman, Tanzania, Thailand, UAE, Uruguay and Vietnam Key endocrine brands Vetoryl®, Felimazole® and Zycortal being brought back in-house in ANZ and progressing through the fast track process in Brazil 	<ul style="list-style-type: none"> Intensify focus on growing our own branded international organisations Further extend our distribution business through product registrations and by strengthening relationships with key marketing partners 	<p>① ② ③ ④</p> <p>② ⑤ ⑦ ⑧</p> <p>➔ Read more about our Geographical Footprint on pages 06 and 07</p>
<ul style="list-style-type: none"> Acquisition and successful integration of Venco Acquisition of trade and assets of Caledonian Holdings Ltd in New Zealand strengthening market position in Equine 	<ul style="list-style-type: none"> Acquisition of an additional 15% of Medical Ethics Pty Ltd Acquisition of Ampharmco LLC in Fort Worth, Texas, a FDA registered facility Acquisition of worldwide rights and assets of Mirataz®, a transdermal medication for cats 	<ul style="list-style-type: none"> Complete and integrate the acquisition of worldwide rights and assets of Osurnia®, a long acting treatment for Otitis Externa in dogs Leverage prudent balance sheet position to capitalise on future opportunities 	<p>① ② ③ ④ ⑤</p> <p>⑥ ⑦</p> <p>➔ Read more about our Acquisitions on page 24</p>
<ul style="list-style-type: none"> Appointment of additional Non-Executive Director and Group Manufacturing & Supply Director Investments in manufacturing and packing at Skipton, a new solid dose facility in Zagreb and an upgrade to the Bladel sterile facility Oracle ERP embedded 	<ul style="list-style-type: none"> Appointment of Non-Executive Director and Chief Financial Officer Restructured Product Development team and created new position of Chief Scientific Officer Remedied internal supply issues 	<ul style="list-style-type: none"> Extend our digital capabilities Strengthen our IT Systems Invest in the development and infrastructure at our sites to facilitate more in-house manufacturing Execution of our Environmental, Social and Governance strategy 	<p>① ② ③ ④ ⑤ ⑥ ⑦</p> <p>④ ⑦ ⑨</p> <p>➔ Read more about our Strategic Enablers on pages 36 to 39</p>

Chief Executive Officer's Statement

We believe in the capability of our people and our ability to execute our strategy

Ian Page
Chief Executive Officer

Glossary

Terms used within this section:

CER: Constant Exchange Rates

AER: Actual Exchange Rates

CAP: Companion Animal Products

EMA: European Medicines Agency

ERP: Enterprise Resource Planning

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

FDA: US Food and Drug Administration; a federal agency of the US Department of Health and Human Services

FAP: Food producing Animal Products

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

I am pleased to report that Dechra has remained resilient throughout a challenging year. This is testament to our strategy, the strength of our product portfolio and through the innovation and dedication of our people. Our portfolio focus on prescription only medicines, our continued international expansion and the delivery of targeted acquisitions have ensured that we have, yet again, outperformed the market.

COVID-19

Throughout the pandemic we have successfully managed to remain operational. We took the decision that we would not furlough any of our employees and therefore did not take advantage of, or utilise, any government assistance in any country. There is no doubt that this has provided job security to our people which has enhanced their loyalty and commitment. All manufacturing, logistics and front line laboratories have remained open and operational throughout the period and our employees in these areas have been awarded a one-off bonus payment; all other employees have functionally operated from home. Many of our sales teams created new and innovative ways to communicate with and support our veterinary customer base.

Sadly, we were all touched by the loss to COVID-19 of our Group Manufacturing and Supply Chain Director, Simon Francis. In the 18 months that he was with the Group, Simon had implemented a robust strategy and significantly strengthened the management team who will continue to deliver this strategy as his legacy.

Across the world the majority of veterinary practices have still operated; however, service provision varied on a country-by-country basis, further details of which will be provided later in this report. Our sales have remained robust because of our strategy to focus on essential and chronic prescription medicines, this has served us well, as veterinarians have worked to ensure that sick animals have continued to be treated.

Operational Review

EU Pharmaceuticals Segment

During the financial year our European (EU) Pharmaceuticals Segment reported net revenues increased by 7.8% at CER (6.4% at AER). The Segment includes our International business, which is detailed below. It also includes non-core business, such as third party contract manufacturing, which we continue to exit as strategically planned. Existing revenues, excluding third party contract manufacturing and including the like-for-like impact of recent acquisitions, increased by 6.4% at CER (5.0% at AER).

This growth has been driven across all our key therapeutic sectors, due to veterinary educational programmes on our existing portfolio and the continued delivery of synergies from the AST Farma and Le Vet acquisition completed in February 2018. Two of the products from this acquisition, Tralieve® and Prevomax®, have performed exceptionally well.

Performance by country is varied with the COVID-19 effect being particularly prevalent in the UK and France, both of which have underperformed. The UK was subject to more practice closures than any

5.1% at CER
Revenue Growth in NA

7.8% at CER
Revenue Growth in EU

other country and also appears to have been affected by wholesalers reducing Brexit contingency stock. The UK started to show signs of recovery in June and returned to near normal in July. Performance in France showed a marked improvement in June. All other territories performed well in this difficult COVID-19 affected environment.

Five years ago we had a greenfield start-up of a new Dechra subsidiary in Poland, focusing entirely on FAP products. In line with our strategy, we started to introduce CAP products there. It is pleasing to report that we have more than quadrupled our total in-market revenues in this territory since formation and it is now our fastest growing CAP market.

International Business

Our international expansion strategy continues to deliver growth, especially in Australia, New Zealand and Brazil where we have our own Dechra branded organisations. Core performance in Australia has been strong and will be enhanced in the new financial year as our key endocrine brands, *Vetoryl*, *Felimazole* and *Zycortal*, revert to Dechra following the termination of the prior distribution agreement. The Venco team in Brazil have transitioned the business to the Dechra brand and our capital investment programme continues as we modernise and improve the facilities. The vaccine portfolio in Brazil will be diversified as we start to introduce Dechra products with *Vetoryl* now being marketed and *Felimazole* and *Zycortal* in the fast track approval process. Our distribution business continues to be extended through product registrations and by stronger relationships with these key marketing partners.

NA Pharmaceuticals Segment

Our North America (NA) Pharmaceuticals Segment net revenues increased by 5.1% at CER (7.8% at AER). This is an excellent second half performance given the decline seen in the first half due to supply issues and a strong comparable period in the previous year which benefited from exceptional sales of *Zycortal*.

On the whole, the US market has been reasonably robust with veterinary practices offering kerbside and online consultations.

Following the acquisition of *Mirataz*, we appointed 11 talented members of the Kindred Biosciences Incorporated (Kindred Bio) team which extended our overall sales capabilities and added to our digital marketing skills.

Performance in Mexico continues to improve as we now have several key Dechra products registered in the territory which provide a higher margin than the legacy products.

Performance in Canada remains solid; however, it has been partly offset by an ongoing supply issue with *Canaural*®, an older product produced in-house that we are in the process of modernising to bring testing methods up to current standards.

Product Group Performance

CAP

Companion Animal Products (CAP), which represent 70.1% of Group turnover, grew by 5.5% at CER. This steady performance benefitted from the launch of *Mirataz* but was impacted by lower sales rates in the UK and France in the last quarter.

FAP

Food producing Animal Products (FAP), which represents 14.5% of Group turnover, grew by 33.5% at CER, a strong performance benefitting from a full year of sales from DVP Brazil (Venco) and with a lower impact from COVID-19 disruptions.

Equine

Equine, which represents 7.1% of Group turnover, grew by 6.1% at CER benefitting from a full year of the Caledonian acquisition portfolio.

Nutrition

Nutrition represents 5.6% of Group turnover and declined by 0.7%. This is a solid performance as these nutritional diets are subject to discretionary spend unlike much of the rest of the portfolio which is predominantly clinically necessary pharmaceuticals. Following the relaunch of the cat diets last year, the dog diets have now also all been refreshed with improved formulation, packaging and presentation and have been positioned at a lower price point to give us an additional competitive advantage.

Product Development

Structural Changes

As reported at the half year, Dr Susan Longhofer, who has been with the Group for 15 years, was promoted to a new position of Group Chief Scientific Officer. Following this promotion, we have restructured product development, regulatory affairs and pharmaceutical business development teams. Nancy Zimmerman, formerly head of Companion Animal Marketing, was promoted to Group Director of Pharmaceutical Business Development, a role predominantly focused around identifying and screening new development opportunities. Trish Logie, a recent appointment within the EU, who has industry and regulatory agency experience, has been promoted to Group Director, Regulatory Affairs. Anthony Lucas remains as the Group Product Development Director.

Our product development laboratory in Zagreb has been completely refurbished to GMP standards; with double the amount of space, new equipment and the appointment of new analysts. This investment enables us to increase the amount of analytical and formulation work conducted at this facility significantly.

Product Approvals

Numerous marketing authorisations have been achieved throughout the year. Although none is material in its own right, they all strengthen the existing portfolio in Dechra territories and enhance our International portfolio, an increasing area of strategic importance. Major approvals in Dechra territories were:

- *Cosacthen* for the diagnosis of Cushing's Disease and Addison's Disease (which *Vetoryl* and *Zycortal* treat) was approved in 23 EU territories and Canada;
- *Avishield* IB Plus and *Avishield* IB GI-13, both poultry vaccines, were approved in the EU territories;
- Marboquin tablets, a companion animal antibiotic, were approved in the USA;
- eight new products were registered in Australia and New Zealand, two in Mexico and one in Brazil;
- a number of established products already registered in the EU have now received approval in new territories, including *Clavudale*®, *Felimazole*, *Isathal*®, *Spectrabactin* and *Octacillin*®. Our market leading equine non-steroidal anti-inflammatory, *Equipalazone*®, has been reformulated with the addition of a flavouring agent, which has now been approved in 13 European territories; and
- Internationally we have received 34 approvals across our key brands in countries including Indonesia, Korea, Myanmar, Nicaragua, Oman, Tanzania, Thailand, United Arab Emirates, Uruguay and Vietnam.

Chief Executive Officer's Statement continued

Filling the Pipeline

At the beginning of the financial year, in August 2019, we announced the signing of a licensing and supply agreement with Akston Biosciences to co-develop a long acting treatment for diabetes in dogs. Subsequently we have exercised our rights to evaluate the cat product. The initial proof of concept study in dogs was positive with high efficacy rates and satisfied dog owners who only had to administer an injection once a week as opposed to twice daily. We still have many significant hurdles to cross but initial indications look positive for what could be a huge opportunity for the Group. We continue to screen numerous other opportunities and are hoping shortly to commence another proof of concept study for a novel ophthalmic product.

Acquisitions

In July 2019, we acquired an additional 15.0% of the shares of Medical Ethics Pty Ltd, the parent company of Animal Ethics Pty Ltd, for a consideration of AUD13.5 million (£7.6 million). Following the acquisition of 33.0% for AUD18.0 million in 2017 this takes our total holding to 48%. Strong progress continues to be made on the global development of Tri-Solfen® for pigs, cattle and sheep. I am pleased to report that the Committee for Veterinary Medicinal Products (CVMP) has recommended that a maximum residue limit (MRL) be granted for the topical use of the two local anaesthetic constituents of Tri-Solfen® for use in cattle and pigs. This is a major positive step forward towards gaining market approvals in the EU and UK with submission of the dossier for approval for use in pigs expected to be made through the European decentralised process before the end of the calendar year. The ongoing trials for its application for debriding of venous leg ulcers in humans have been delayed due to COVID-19.

In August 2019, we announced the acquisition of Ampharmco LLC in Fort Worth, Texas, USA for a cash consideration of USD29.6 million (£24.3 million). Ampharmco, an FDA registered facility, was acquired to

support our manufacturing strategy and to provide us with a US base to manufacture solid dose, liquids, creams and ointments for the American market. It also had three FDA approved generic products: Gentamicin-Betamethasone Topical Spray was already marketed by Dechra; Carprofen Chewable Tablets have now been launched under the Dechra brand; and Carprofen Flavoured Tablets have recently been approved but not yet launched.

In April 2020, we completed the acquisition of the worldwide rights and assets of the *Mirataz* product portfolio from Kindred Bio for cash consideration of USD43.0 million (£34.9 million) and a royalty on future sales. *Mirataz* is the first and only FDA and EMA approved transdermal medication for the management of weight loss in cats, a major problem encountered by veterinarians and owners when treating other underlying medical conditions. The product is an excellent fit with Dechra's existing portfolio as many of the conditions our products treat are complicated by weight loss in cats. It is a product that will need our technical expertise, marketing capabilities and educational tools to drive sales. It is currently sold in the USA and has recently been approved in the EU with an expected launch towards the end of the 2020 calendar year. We are also planning registration in several other territories.

In July 2020, post the year end, we completed the acquisition of the worldwide rights to the *Osumnia* product portfolio from Elanco Animal Health Incorporated for consideration of USD135.0 million (£104.7 million). *Osumnia* is a long acting treatment for otitis externa (inflammation of the outer ear) in dogs. The addition of *Osumnia* to our dermatology portfolio will significantly enhance our presence in this key therapeutic area and increase the range of solutions we offer to veterinarians in treating otitis. *Osumnia* is sold in all our main markets, North America and the EU and also in a number of our International markets including Brazil and Australia.

Strategic Enablers

Manufacturing and Supply Chain

It has been an extremely challenging year for the Manufacturing and Supply Chain team, especially with the loss to COVID-19 of the head of the team. The strong management team has been further enhanced in the year, especially in the areas of quality control and quality assurance. We have also added further personnel to the team that manage our network of third party suppliers, who currently make more than 50% of all the products we sell. There has been a huge amount of activity to resolve in-house quality control problems, mainly revolving around older products at our facility in Skipton. We are also accelerating our strategic plan to increase the in-house manufacture of our products and also to secure stronger, long term relationships with Contract Manufacturing Organisations for the balance. We are developing a team and infrastructure to enable us to exceed the ever increasing and exacting standards expected in pharmaceutical manufacturing and also to deal with the external work streams involved in the technical transfer of products to new manufacturing sites. Although the majority of in-house issues have been remedied, with only a few of our older products out of stock, it will be several months before some of our outsourced products are back in full supply.

We have continued to invest in the development and in the infrastructure at our sites:

- Skipton, UK has been refreshed and refurbished;
- Bladel, Netherlands is being prepared for FDA inspection for the sterile facility;
- Zagreb, Croatia has efficiently increased capacity and infrastructure throughout;
- Londrina, Brazil continues improvements in its upstream vaccine production; and
- Sydney, Australia is investing to gain Therapeutic Goods Administration (TGA) approval, a higher quality standard, which will allow us to export products outside Australia and New Zealand.

Technology

Technology is a major enabler and support function for the Group. Numerous projects are being delivered including the:

- continued roll out and development of the Group ERP network;
- standardisation of systems and hardware across the world, including integration of recent acquisitions; and
- support and strengthening of the network to provide enhanced security and good connectivity for increased numbers of home workers.

Technology for education continues to be developed providing training modules for employees through an in-house system branded Delta and educational tools for veterinarians and veterinary nurses through the Dechra Academy. Throughout the COVID-19 pandemic our digital capabilities have proven to be very successful tools. In Europe 15,000 unique users completed Dechra Academy courses; several thousand veterinarians attended webinars during the pandemic; and there were over 230,000 views of Dechra YouTube content. In the US we held 500 webinar presentations in the year with approximately 20,000 attendees.

People

In March 2020 we announced the appointment of Alison Platt as an additional Non-Executive Director. Alison has extensive experience of leadership in both Executive and Non-Executive roles and will strengthen

the Board and provide continuity through our next phase of growth, especially as both the Senior Independent Director and the Audit Committee Chairman are on nine year terms which expire in 2022.

After ten years with the Group and several months as Acting Chief Financial Officer, in October 2019 Paul Sandland was appointed to the role on a permanent basis and joined the Board.

In February 2020, Clint Morris, an experienced finance lead, was appointed to Paul Sandland's previous role as DVP EU Finance Director.

Following the retirement of a long-serving senior EU Manager, Jan Jaap Korevaar, we have appointed Nathalie Miara, who has extensive industry experience, to Director of European Marketing.

Within the year we have rolled out a Save As You Earn (SAYE) scheme in the United States; the launch exceeded all our expectations with over 50% of employees demonstrating their commitment to the success of Dechra by enrolling on the scheme. We are looking to launch similar schemes in the EU and other major territories where regulations permit.

In line with our CSR programme, we have encouraged our people to get involved in community projects and volunteer services and have given all employees the opportunity to participate in local schemes during working days, further details are provided in the Corporate Social Responsibility section of the Annual Report and Accounts.

The level of commitment and dedication to Dechra has always been evident; however, throughout the COVID-19 pandemic it has been truly exceptional. I would like to thank all employees for their hard work, dedication, innovation and commitment throughout the year.

Dividend

The Board is proposing a final dividend of 24.00 pence per share (2019: 22.10 pence per share). Added to the interim dividend of 10.29 pence per share (2019: 9.50 pence per share), this brings the total dividend for the financial year ended 30 June 2020 to 34.29 pence per share (2019: 31.60 pence per share), representing 8.5% growth over the previous year.

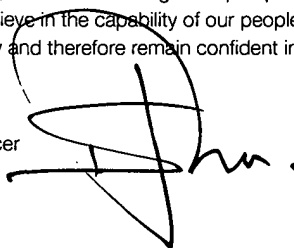
Subject to shareholder approval at the Annual General Meeting to be held on 27 October 2020, the final dividend will be paid on 27 November 2020 to shareholders on the Register at 6 November 2020. The shares will become ex-dividend on 5 November 2020.

Outlook

Trading in the first few weeks of the new financial year has been encouraging. However, the underlying COVID-19 affected longer term trend cannot yet be ascertained as there is a degree of correction in current sales as markets, such as the UK, return to growth and wholesaler stocks return to more normalised levels. The indications at this stage, however, are positive. A key area of focus over the coming months will be the sales and marketing of our recently acquired brands, *Osurmia* and *Mirataz*, which offer solid growth prospects and strengthen our portfolio. We believe in the capability of our people and our ability to execute our strategy and therefore remain confident in our future growth prospects.

Ian Page

Chief Executive Officer
7 September 2020



Financial Review

Our existing business performed robustly this year, recovering well from first half supply issues and through the disruption caused by COVID-19

Paul Sandland
Chief Financial Officer

Glossary

Terms used within this section:

IFRSs: International Financial Reporting Standards as adopted by the EU

CER: Constant Exchange Rates

AER: Actual Exchange Rates

CAP: Companion Animal Products

FAP: Food producing Animal Products

bps: basis points

Overview of Reported Financial Results

To assist with understanding our reported financial performance, the consolidated results below are split between existing and acquired businesses; acquisition includes the incremental effect of those businesses acquired in the current and prior year, reported on a 'like-for-like' basis. Additionally, the table below shows the growth at both reported actual exchange rates (AER), and constant exchange rates (CER) to identify the impact of foreign exchange movements. The acquisition operating loss includes underlying operating profit of £1.6 million and non-underlying charges of £6.9 million. These non-underlying charges comprise amortisation of acquired intangibles of £2.6 million and acquisition costs of £4.3 million.

Including non-underlying items, the Group's consolidated operating profit increased by 33.6% at CER (33.8% at AER) whilst consolidated profit before tax increased by 45.3% at CER (47.1% at AER). Diluted EPS growth was restricted to 7.3% at CER (8.9% at AER) primarily reflecting the one-off impact in the prior year of the reduction in the Netherlands tax rates on deferred tax balances.

	2020 Existing £m	2020 Acquisition £m	2020 Consolidated £m	2019 £m	Growth at AER Consolidated %	Growth at CER Consolidated %
As Reported						
Revenue	502.1	13.0	515.1	481.8	6.9%	6.8%
Gross profit	285.4	6.2	291.6	273.1	6.8%	6.7%
Gross profit %	56.8%	47.7%	56.6%	56.7%	(10bps)	(10bps)
Operating profit/(loss)	57.5	(5.3)	52.2	39.0	33.8%	33.6%
EBIT %	11.5%	(40.8%)	10.1%	8.1%	200bps	200bps
Profit/(loss) before tax	47.3	(6.4)	40.9	27.8	47.1%	45.3%
Diluted EPS (p)			32.76	30.07	8.9%	7.3%

Overview of Underlying Financial Results

When presenting our financial results, we use a number of adjusted measures which are considered by the Board and management in reporting, planning and decision making. Underlying results reflect the Group's trading performance excluding non-underlying items. A reconciliation of underlying results to reported results in the year to 30 June 2020 is provided in the table below. In the commentary which follows, all references will be to CER movement unless otherwise stated.

		Non-underlying Items			
	2020 Underlying Results £m	Amortisation and related costs of acquired intangibles £m	Acquisition, impairments and restructuring costs £m	Tax rate changes and finance expenses £m	2020 Reported Results £m
Revenue	515.1	–	–	–	515.1
Gross profit	291.6	–	–	–	291.6
Selling, general and administrative expenses	(134.9)	(63.9)	(6.5)	–	(205.3)
R&D expenses	(28.4)	(5.7)	–	–	(34.1)
Operating profit	128.3	(69.6)	(6.5)	–	52.2
Net finance costs	(8.5)	–	–	(2.5)	(11.0)
Share of associate profit/(loss)	0.3	(0.6)	–	–	(0.3)
Profit before tax	120.1	(70.2)	(6.5)	(2.5)	40.9
Taxation	(24.7)	17.0	0.9	(0.2)	(7.0)
Profit after tax	95.4	(53.2)	(5.6)	(2.7)	33.9
Diluted EPS (p)	92.19	–	–	–	32.76

In the year, Dechra delivered consolidated revenue of £515.1 million, representing an increase of 6.8% on the prior year. This included £502.1 million from its existing business, an increase of 4.1%, and a £13.0 million contribution from acquired businesses.

Consolidated underlying operating profit of £128.3 million represents a 0.4% increase on the prior year. This included £126.7 million from Dechra's existing business, a reduction of 0.8% on a like-for-like basis, and a £1.6 million contribution from acquired businesses.

Underlying EBIT margin reduced by 150 bps to 24.9%, with the erosion attributable to a combination of the £3.5 million curtailment credit of our Dutch defined benefit pension scheme in the prior year, the dilutive impact of acquired businesses and increased Research and Development expenses. Excluding the credit relating to the curtailment of the Dutch defined benefit pension scheme in the prior year, the EBIT margin reduction would be 80 bps.

Underlying diluted EPS grew by 1.7% to 92.19 pence reflecting the profit growth from the existing and acquired businesses.

	2020 Existing £m	2020 Acquisition £m	2020 Consolidated £m	2019 £m	Growth at CER	
Underlying					Existing %	Consolidated %
Revenue	502.1	13.0	515.1	481.8	4.1%	6.8%
Gross profit	285.4	6.2	291.6	278.2	2.5%	4.7%
Gross profit %	56.8%	47.7%	56.6%	57.7%	(90bps)	(110bps)
Underlying Operating profit	126.7	1.6	128.3	127.4	(0.8%)	0.4%
Underlying EBIT %	25.2%	12.3%	24.9%	26.4%	(120bps)	(150bps)
Underlying EBITDA	140.2	2.3	142.5	137.2	2.0%	3.7%
Underlying Diluted EPS (p)	–	–	92.19	90.01	–	1.7%
Dividend per share (p)	–	–	34.29	31.6	–	8.5%

Financial Review continued

Reported Segmental Performance

Reported segmental performance is presented in note 2 on pages 166 to 168. The effect of acquisitions in the year was material; the reported segmental performance is analysed between existing and acquired businesses, and at AER and CER in the table below. The acquisition elements capture the additional base business coming into the Group up to the first anniversary of their acquisition, including the growth Dechra generated in them during the year, and the synergies that have already been realised by the Group since acquisition. This analysis becomes less definitive the further in time from the completion of the acquisition, as the acquired business is progressively integrated with the existing business.

Reported	2020	2020	2020	2019	Growth at AER		Growth at CER	
	Existing £m	Acquisition £m	Consolidated £m		Existing %	Consolidated %	Existing %	Consolidated %
Revenue by segment								
EU Pharmaceuticals	314.3	9.2	323.5	304.0	3.4%	6.4%	4.7%	7.8%
NA Pharmaceuticals	187.8	3.8	191.6	177.8	5.6%	7.8%	3.0%	5.1%
Total	502.1	13.0	515.1	481.8	4.2%	6.9%	4.1%	6.8%
Operating profit/(loss) by segment								
EU Pharmaceuticals	98.6	1.4	100.0	100.3	(1.7%)	(0.3%)	(0.6%)	0.8%
NA Pharmaceuticals	62.9	0.8	63.7	59.2	6.2%	7.6%	3.4%	4.7%
Pharmaceuticals Research and Development	(27.8)	(0.6)	(28.4)	(25.1)	(10.8%)	(13.1%)	(10.0%)	(12.4%)
Segment operating profit	133.7	1.6	135.3	134.4	(0.5%)	0.7%	(0.8%)	0.4%
Corporate and unallocated costs	(7.0)	–	(7.0)	(7.0)	0.0%	0.0%	0.0%	0.0%
Underlying operating profit	126.7	1.6	128.3	127.4	(0.5%)	0.7%	(0.9%)	0.4%
Non-underlying operating items	(69.2)	(6.9)	(76.1)	(88.4)				
Reported operating profit	57.5	(5.3)	52.2	39.0	47.4%	33.8%	47.2%	33.3%

Underlying Segmental Performance

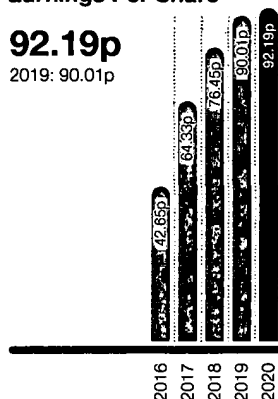
European Pharmaceuticals

Revenue in European (EU) Pharmaceuticals grew by 7.8%. The existing business grew by 4.7% including like-for-like year-on-year Dechra Brazil (Venco) revenue, and Caledonian Holdings Ltd (Caledonian) revenue; excluding third party contract manufacturing, which is being reduced in line with our strategy and replaced with own product manufacturing, revenues increased by 6.4%. This growth was driven by a strong performance in a number of countries, including Germany, Iberia, Poland and Italy, and through the continued realisation of synergies from Le Vet partly offset by COVID-19 related weakness driving lower sales in the UK. The acquisitions of Venco and Caledonian contributed a combined £9.2 million to revenue for the period where there is no comparative and are reported within EU Pharmaceuticals.

Operating Profit from existing business declined by 0.6%, with operating margin reducing to 31.4% and consolidated operating margin declining to 30.9%. This was principally due to the prior year curtailment of our Dutch defined benefit pension scheme which resulted in a £3.5 million non-cash credit in addition to the adverse product mix impact from the acceleration of our lower margin FAP business. Excluding the curtailment gain, operating profit from existing business grew by 3.0% with operating margins reducing by 50 bps.

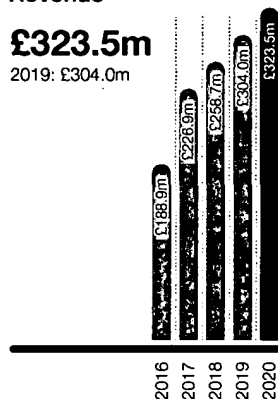
Underlying Diluted Earnings Per Share

92.19p
2019: 90.01p



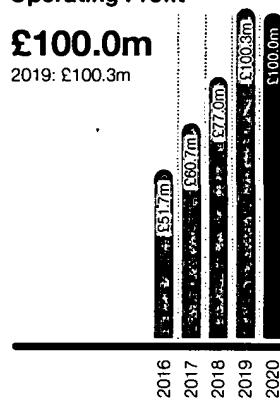
EU Pharmaceuticals Revenue

£323.5m
2019: £304.0m



EU Pharmaceuticals Operating Profit

£100.0m
2019: £100.3m



	2020 Existing £m	2020 Acquisition £m	2020 Consolidated £m	2019 £m	Growth at CER	
Underlying					Existing %	Consolidated %
Revenue	314.3	9.2	323.5	304.0	4.7%	7.8%
EBITDA	109.6	1.8	111.4	108.6	1.9%	3.7%
EBITDA %	34.9%	19.6%	34.4%	35.7%	(90bps)	(130bps)
Operating Profit	98.6	1.4	100.0	100.3	(0.6%)	0.8%
Operating Profit %	31.4%	15.2%	30.9%	33.0%	(170bps)	(220bps)

North American Pharmaceuticals

Revenue from North American (NA) Pharmaceuticals grew by 5.1% to £191.6 million. The existing business grew by 3.0% due to a strong second half of the year which benefitted from the resolution of most of our internal supply issues and the retention of market share for *Zycortal*. The acquisitions of Ampharmco and *Mirataz* added £3.8 million to revenue for the period.

Operating Profit from existing business grew 3.4% with operating margin increasing slightly by 10 bps to 33.5%. Further margin expansion was hampered by the loss of our sterile ophthalmic range for the entire financial year. We expect to be back in supply of this range in the second half of the 2021 financial year. Acquisitions did not impact significantly on segmental performance in the period with a small contribution from Ampharmco relating to third party contract sales in addition to the initial sales of *Mirataz* in the last two months of the financial year.

	2020 Existing £m	2020 Acquisition £m	2020 Consolidated £m	2019 £m	Growth at CER	
Underlying					Existing %	Consolidated %
Revenue	187.8	3.8	191.6	177.8	3.0%	5.1%
EBITDA	64.3	1.1	65.4	60.0	4.3%	6.2%
EBITDA %	34.2%	28.9%	34.1%	33.7%	50bps	40bps
Operating Profit	62.9	0.8	63.7	59.2	3.4%	4.7%
Operating Profit %	33.5%	21.1%	33.2%	33.3%	10bps	(10bps)

Pharmaceuticals Research and Development

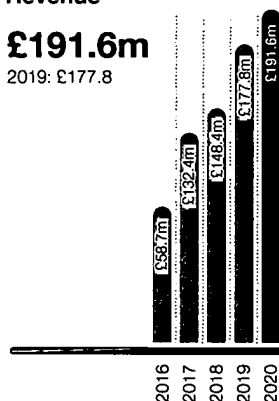
Pharmaceuticals Research and Development (R&D) expenses increased by 12.4% from £25.1 million to £28.4 million, with existing business research and development increasing by 10.0%. R&D activities from the acquisition of Ampharmco and Venco added £0.6 million. Overall R&D expenses as a percentage of revenue increased from 5.2% to 5.5%. This included £2.2 million of spend in relation to Akston, and was in line with the previously communicated strategic intent to expand the Group's product pipeline and to increase investment in more novel opportunities to drive enhanced future growth.

	2020 Existing £m	2020 Acquisition £m	2020 Consolidated £m	2019 £m	Growth at CER	
					Existing %	Consolidated %
R&D expenses	(27.8)	(0.6)	(28.4)	(25.1)	(10.0%)	(12.4%)
% of Revenue	5.5%	4.6%	5.5%	5.2%		

NA Pharmaceuticals Revenue

£191.6m

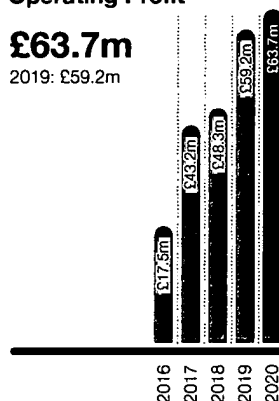
2019: £177.8



NA Pharmaceuticals Operating Profit

£63.7m

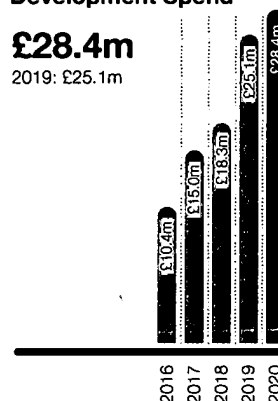
2019: £59.2m



Research and Development Spend

£28.4m

2019: £25.1m



Financial Review continued

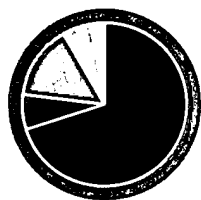
Revenue by Product Category

CAP revenue continues to be the largest proportion of Dechra's business at 70.1%, down from 70.6% in the prior year. CAP grew 5.5% in the year from market penetration, product launches and the addition of *Mirataz*. Equine revenue grew by 6.1% in the year, with growth driven by the Caledonian acquisition. FAP revenue accelerated by 33.5% driven by strong core growth in the EU and the acquisition of Venco. Nutrition revenue slightly declined on the prior year.

Other revenue reduced by 34.1% to £13.7 million, now representing only 2.7% of the business as we continue our planned exit from third party contract manufacturing in line with our manufacturing strategy, to improve the production efficiency of Dechra's own products.

	2020 £m	2019 £m	% Change at AER	% Change at CER
CAP	361.6	340.2	6.3%	5.5%
Equine	36.4	34.4	5.8%	6.1%
FAP	74.8	57.3	30.5%	33.5%
Subtotal Pharmaceutical	472.8	431.9	9.5%	9.3%
Nutrition	28.6	29.1	(1.7%)	(0.7%)
Other	13.7	20.8	(34.1%)	(34.1%)
Total	515.1	481.8	6.9%	6.8%

Revenue by Product Category (at AER)



● CAP	70.1%
● Equine	7.1%
● FAP	14.5%
● Nutrition	5.6%
● Other	2.7%

Underlying Gross Profit

Underlying Gross Profit for the existing business declined by 90 bps to 56.8% and the consolidated Underlying Gross Profit declined by 110 bps to 56.6%, reflecting the greater proportion of FAP sales.

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

SG&A costs grew from £125.7 million in the prior year to £134.9 million in the current year, an increase of 7.3% (at AER). This represents growth from both acquired and the existing businesses, and infrastructure cost added to manage the acquisitions and drive further growth.

For the 2019 financial year the SG&A costs included a £3.5 million non-cash credit through the income statement as a result of the curtailment of our Dutch defined benefit pension scheme.

SG&A as a percentage of revenue at 26.2% remained in line with 2019 at 26.1% (26.8% excluding the pension credit).

Non-underlying Items

Non-underlying items incurred in the year are fully described in note 5 on page 169. In summary, they relate to the following:

- Amortisation of acquired intangibles of £69.6 million – the amortisation of the acquired intangibles has declined from £76.8 million principally due to a lower charge from the AST Farma and Le Vet acquisition;
- Expenses relating to acquisition and subsequent integration activities of £4.3 million (2019: £3.7 million) – this includes the transaction and integration costs associated with the acquisitions made in recent years including AST Farma and Le Vet, Caledonian, Venco, Ampharmco, *Mirataz* and the prospective acquisition of *Osurria* which completed in July 2020;
- Rationalisation of manufacturing organisation of £2.2 million (2019: £2.0 million) – this comprises the costs associated with this strategic programme;
- Finance expense of £2.5 million (2019: £1.0 million) – this represents the charge arising on the acceleration of the amortisation of arrangement fees relating to the Term Loan on termination (see Borrowing Facilities section below) and also unwinding of the present value discounts relating to contingent consideration due and associated foreign exchange; and
- Taxation credit of £17.7 million (2019: £28.0 million) – this represents the tax impact of the above, as well as the revaluation of deferred tax balance sheet items following changes in corporate tax rates including a further revision to the 2021 Netherlands tax rate which will now decrease to 21.7% in 2021 (previously this was expected to be 20.5%).

Taxation

The reported effective tax rate (ETR) for the year is 17.1% (2019: credit of 11.2%). The significant credit in the prior year reflected the one-off impact of the reduction in the Netherlands tax rates on deferred balances. On an underlying basis the ETR is 20.6% (2019: 21.2%); the main differences to the UK corporation tax rate applicable of 19.0% (2019: 19.0%) relate to patent box allowances and differences in overseas tax rates.

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

We continue to monitor relevant tax legislation internationally as it may affect our future ETR. Further details can be found in Understanding Our Key Risks on pages 73 to 76.

Reported Profit

Reported profit before tax increased by 47.1% at AER reflecting the reported operating profit growth of 33.8% at AER and the proportionate decrease in the finance charges arising from the financing of prior and current year acquisitions.

Earnings per Share and Dividend

Underlying diluted EPS for the year was 92.19 pence, a 1.7% growth on the prior year in line with the EBIT growth of 0.4%. The weighted average number of shares for the year was 103.5 million (2019: 102.8 million).

The reported diluted EPS for the year was 32.76 pence (2019: 30.07 pence). This represents an increase of 8.9% (at AER) in reported EPS much lower than the reported EBIT growth of 33.8% (at AER) and reflects an increase in the reported tax charge due to the year on year impact of rate changes, which gave rise to a tax credit in the previous year.

The Board is proposing a final dividend of 24.00 pence per share (2019: 22.10 pence), added to the interim dividend of 10.29 pence, the total dividend per share for the year ended 30 June 2020 is 34.29 pence. This represents 8.5% growth over the prior year. Dividend cover based on underlying diluted EPS is 2.7 times (2019: 2.8 times). The Board continues to operate a progressive dividend policy recognising investment opportunities as they arise.

Currency Exposure

The average rate for £/€ increased by 0.4%, and the £/\$ rate has decreased by 2.7% during the financial year. The effect in the Consolidated Income Statement and Statement of Financial Position is analysed in the above paragraphs of this review between performance at AER and CER. CER analysis compares the performance of the business on a like-for-like basis applying constant exchange rates.

	Average rates		
	2020	2019	% Change
£/€	1.1396	1.1345	0.4%
£/\$	1.2601	1.2945	(2.7%)

Currency Sensitivity

Euro €: a 1% variation in the £/€ exchange rate affects underlying diluted EPS by approximately +/- 0.4%.

US Dollar \$: a 1% variation in the £/\$ exchange rate affects underlying diluted EPS by approximately +/- 0.4%.

Current exchange rates are £/€ 1.1256 and £/\$ 1.3351 as at 2 September 2020. If these rates had applied throughout the year, the underlying diluted EPS would have been approximately 2.1% lower.

Statement of Financial Position

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

- Non-current assets (excluding deferred tax) increased from £750.0 million to £788.7 million and includes the intangible assets recognised on the acquisitions of Ampharmco and Mirataz and the additional investment in Medical Ethics being partly offset by amortisation of acquired intangibles.
- Working capital has increased from £107.8 million to £116.5 million partly due to an increase in inventory to enable service levels to be maintained whilst customer inventory levels fluctuate due to COVID-19 uncertainty but also due to the growth of the Group.

- Net debt has decreased in the year by £100.2 million from £227.8 million to £127.6 million; this includes cash generation from operations at £127.5 million, the net proceeds from the share placing of £131.5 million, outflows of £66.8 million relating to the acquisitions of Ampharmco, Mirataz and the additional investment in Medical Ethics along with £33.3 million in dividends. Exchange rate variations adversely affected the net debt position by £3.0 million.
- Current and deferred tax has reduced from £82.0 million to £78.7 million principally due to the realisation of deferred tax liabilities relating to the amortisation of acquired intangibles.

	2020 £m	2019 £m
Non-current assets	786.0	749.1
Working capital	116.5	107.8
Net debt	(127.6)	(227.8)
Current and deferred tax	(78.7)	(82.0)
Other liabilities	(58.7)	(38.0)
Total net assets	637.5	509.1

Cash Flow, Financing and Liquidity

The Group enjoyed strong cash generation during the year, with a strong EBITDA margin of 27.7% (2019: 28.5%). However, as mentioned above, working capital has increased by £8.7 million, mainly due to increases in inventory as a result of additional stock cover during COVID-19 and growth of the Group's trading activities. This resulted in net cash generated from operations of £127.5million, representing cash conversion of 99.4%.

	2020 £m	2019 £m
Underlying operating profit	128.3	127.4
Depreciation and amortisation	14.2	9.8
Underlying EBITDA	142.5	137.2
Underlying EBITDA %	27.7%	28.5%
Working capital movement	(8.7)	(19.5)
Other	1.0	(2.0)
Cash generated from operations before interest, taxation and non-underlying items	134.8	115.7
Non-underlying items	(7.3)	(7.4)
Cash generated from operations before interest and taxation	127.5	108.3
Cash conversion (%)	99.4%	85.0%

Financial Review continued

Net Debt Bridge

Notable cash items are listed below in the net debt reconciliation table:

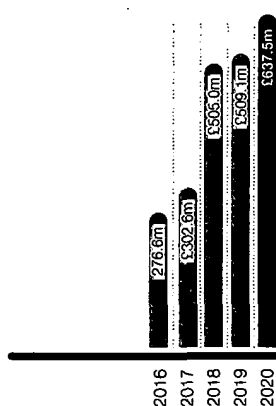
- Net capital expenditure on tangible and intangible assets (excluding the *Mirataz* acquisition) decreased to £14.2 million (2019: £22.2 million), representing 1.0 times depreciation and amortisation.
- Acquisitions of subsidiaries, intangible assets and investment in associates of £67.6 million includes the acquisitions of Ampharmco and *Mirataz*, the additional investment in Medical Ethics and the royalty payment for Phycos. Further details are provided in notes 6 and 31.

	£m
Net Debt 30 June 2019	(227.8)
Net cash generated from operations before non-underlying items	134.8
Non-underlying items	(7.3)
Net capital expenditure	(14.2)
Acquisition of subsidiaries & <i>Mirataz</i> product rights	(60.0)
Investment in associates	(7.6)
Acquisition of subsidiary borrowings	(0.1)
New borrowing (finance leases)	(5.5)
Interest and tax	(20.4)
Net equity issued	131.5
Dividend paid	(33.3)
Changes in accounting policy for leases	(12.7)
Other non-cash movements	(2.0)
Foreign exchange on net debt	(3.0)
Net Debt 30 June 2020	(127.6)

- The net debt/underlying EBITDA leverage ratio per the borrowing facilities' leverage covenant, which includes the proforma adjustment to full year EBITDA for the acquisitions, was 0.80 times (2019: 1.64 times) versus a covenant of 3 times.

Net Assets

£637.5m



Borrowing Facilities

As reported in preceding Annual Reports, the Group completed a refinancing and entered into a multi-currency facilities agreement in July 2017 (the Facility Agreement) with a group of banks comprising Bank of Ireland (UK) plc, BNP Paribas, Fifth Third Bank, HSBC Bank plc, Lloyds Bank plc (replaced by Credit Industriel et Commercial, London branch (CIC) in August 2019), Raiffeisen Bank International AG and Santander UK plc (the Banks). The Facility agreement included a committed revolving credit facility (the RCF) of £235.0 million, together with an 'Accordion' facility of £125.0 million. The RCF is committed until July 2024.

On 1 October 2019 the Accordion on the RCF was invoked, removing the Accordion facility and increasing the committed facilities on the RCF to £340.0 million.

In January 2018, the Group also entered into a £350.0 million multi-currency term loan facility (Term Loan) with BNP Paribas Fortis SA/NV, Fifth Third Bank, HSBC Bank plc, Banco Santander SA, London branch and Lloyds Bank plc, with the loans made or to be made under the Term Loan to be applied towards the acquisition of AST Farma and Le Vet and any other permitted acquisitions. All parties' terms and conditions were the same as in the RCF. The maturity date on the Term Loan was 31 December 2020 with a drawdown period expiring on 31 December 2019.

In January 2020 the Group undertook a Private Placement raising €50.0 million and USD 100.0 million (under seven and ten year new senior secured notes respectively), the proceeds of which were used to repay existing debt and enabled the Term Loan to be fully repaid and cancelled. The placement achieved the Group's aims of diversifying the sources of debt financing and extending the debt maturity profile.

On 4 June 2020 the Group successfully completed a share placing of 5,132,500 new ordinary shares, representing approximately 5% of the existing issued share capital of the Company, at a price of 2600 pence per placing share, raising gross proceeds of £133.4 million which were largely deployed to fund the *Osumnia* acquisition upon its completion on 27 July 2020.

Covenants

There are two covenants governing the RCF and the Private Placement:

- Leverage: Net Debt to underlying EBITDA not greater than 3:1 for the RCF and 3.5:1 for the Private Placement (30 June 2020: 0.80:1); and
- Interest Cover: underlying EBITDA to Net Finance Charges not less than 4:1 (30 June 2020: 14.5:1).

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

The weighted average coupon of the Private Placement fixed rate notes will equate to 2.8%.

Return on Capital Employed (ROCE)

ROCE reduced to 15.4% in the year (2019: 15.6%) reflecting the lower initial contribution in the year from the investments made in Ampharmco and Medical Ethics.

Acquisitions

The Group has made several acquisitions in recent years. The incremental performance during the first year of ownership of the acquisitions made during the 2019 and 2020 financial years is separately summarised compared to the existing business in the sections above.

In July 2019, the Group acquired an additional 15.0% of the shares of Medical Ethics Pty Ltd for a consideration of £7.6 million. This takes our total holding to 48.0%. The acquisition was financed from the Group's existing working capital resources.

In August 2019, we announced the acquisition of Ampharmco LLC, an FDA registered facility in Fort Worth, Texas for a cash consideration of £24.3 million. The business has been successfully integrated into the Group and will support our manufacturing strategy to produce more in-house. The acquisition was financed from the Group's existing working capital resources.

In April 2020, the Group completed the acquisition of the worldwide rights and assets of the *Mirataz* product portfolio from Kindred Biosciences Incorporated for consideration of £34.9 million plus a royalty on future revenues. The addition of *Mirataz* significantly enhances the Dechra portfolio and is complementary to its existing product offering to veterinarians. The acquisition was financed from an additional drawdown from the Group's RCF.

Accounting Standards

The accounting policies adopted are outlined in note 1 to the Accounts. IFRS16 'Leases' was adopted in the period and resulted in a lease liability of £12.7 million with a corresponding fixed asset increase of £12.7 million. There are no other accounting policy changes which have materially impacted the 2020 financial year.

Going Concern

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

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

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

As at 30 June 2020 the Group had net debt of £127.6 million (2019: net debt of £227.8 million), and had available cash balances and unutilised committed borrowings facilities of £353.2 million. The Group acquired the worldwide product rights to *Osurnia* after the year end in July 2020 for USD 135.0 million (£104.7 million). Inventory of USD6.6 million (£1.5 million) was also acquired as part of the transaction. Further information on available resources and committed bank facilities is provided in notes 18 and 21 to the financial statements.

Summary

Our existing business performed robustly despite the disruption caused by first half supply issues and COVID-19 in the second half. In-house manufacturing issues were mostly resolved by the end of the calendar year resulting in our performance being more second half weighted than is typical for Dechra.

Our acquisition of Ampharmco strengthens our in-house manufacturing capabilities, while *Mirataz* and *Osurnia* increase our geographical and market presence. We have increased our R&D expenditure enabling us to expand the number of pipeline projects, novel opportunities and overseas product registrations we invest in.

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







Paul Sandland

Chief Financial Officer
7 September 2020



Key Performance Indicators




KPI and Definition	Performance	Commentary	Relevance to Strategy
<div><div>1</div><div>Revenue Growth</div></div> <div>Year-on-year CER sales growth including new products and excluding revenue from acquired businesses.</div>	<div><div><div>↑</div><div>4.1%</div></div><div><div>£407.1m</div><div>£481.6m</div><div>£502.1m</div></div><div><div>2018</div><div>2019</div><div>2020</div></div></div>	Dechra's existing business grew by 6.4% in EU Pharmaceuticals (excluding third party contract manufacturing which declined), and by 3.0% in NA Pharmaceuticals.	<div><div><div><div></div><div></div></div><div></div></div><div>A key driver of our strategy is to deliver sustainable sales growth through delivering our pipeline, maximising our existing portfolio and expanding geographically.</div></div>
<div><div>2</div><div>Underlying Diluted EPS Growth</div></div> <div>Underlying profit after tax divided by the diluted average number of shares, calculated on the same basis as note 11 to the Accounts.</div>	<div><div><div>↑</div><div>1.7%</div></div><div><div>76.45p</div><div>90.01p</div><div>92.19p</div></div><div><div>2018</div><div>2019</div><div>2020</div></div></div>	This includes a 0.4% increase in underlying operating profit, further improved by lower net finance costs attributable to foreign exchange gains and a lower tax charge driven by tax rate impact of a change in geographical mix of profit.	<div><div><div><div></div><div></div></div><div></div></div><div>Underlying diluted EPS is a key indicator of our performance and the return we generate for our stakeholders. It is one of the performance conditions of the LTIP.</div></div>
<div><div>3</div><div>Return on Capital Employed</div></div> <div>Underlying operating profit expressed as a percentage of the average of the opening and closing operating assets (excluding cash/debt and net tax liabilities).</div>	<div><div><div>↓</div><div>20bps</div></div><div><div>15.4%</div><div>15.6%</div><div>15.4%</div></div><div><div>2018</div><div>2019</div><div>2020</div></div></div>	There was a small decline in ROCE during the year. The reduction is due to the increased investments in acquisitions during the year without the corresponding increase in underlying operating profit in the period. This still exceeds our target of 15%.	<div><div><div><div></div><div></div></div><div></div></div><div>As we look to grow the business, it is important that we use our capital efficiently to generate returns superior to our cost of capital in the medium to long term. It underpins the performance conditions of the LTIP.</div></div>
<div><div>4</div><div>Cash Conversion</div></div> <div>Cash generated from operations before tax and interest payments as a percentage of underlying operating profit.</div>	<div><div><div>↑</div><div>1440bps</div></div><div><div>81.9%</div><div>85.0%</div><div>99.4%</div></div><div><div>2018</div><div>2019</div><div>2020</div></div></div>	Cash conversion increased sharply during the year as a result of strong cash collection in quarter four following the sales spike in quarter three.	<div><div><div><div></div><div></div></div><div></div></div><div>Our stated aim is to be a cash generative business. Cash generation supports investment in the pipeline, acquisition and people.</div></div>

KPI and Definition	Performance	Commentary	Relevance to Strategy
<div>5</div> <div>New Product Revenue</div> <div>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.</div>	<div><div>→</div><div>00bps</div><div><div>2018</div><div>2019</div><div>2020</div></div><div><div>11.9%</div><div>16.7%</div><div>16.7%</div></div></div>	<div>New product revenues reflect the strong market penetration of products launched in the year to 30 June 2020 and the previous four years.</div>	<div><div><div><div></div><div></div></div></div><div><div>This measure shows the delivery of revenue in each year from new products launched in the prior five years, on a rolling basis. It shows the performance of our R&D and sales and marketing organisations when launching newly developed or in-licensed products.</div></div></div>
<div>6</div> <div>Lost Time Accident Frequency Rate (LTAFR)</div> <div>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.</div>	<div><div>↓</div><div>19.0%</div><div><div>2018</div><div>2019</div><div>2020</div></div><div><div>0</div><div>0.21</div><div>0.17</div></div></div>	<div>The LTAFR decreased from 0.21 to 0.17. None of these incidents resulted in a work-related fatality or disability.</div>	<div><div><div><div></div><div></div></div></div><div><div>The safety of our employees is core to everything we do. We are committed to a strong culture of safety in all our workplaces.</div></div></div>
<div>7</div> <div>Employee Turnover</div> <div>Number of leavers during the period as a percentage of the average total number of employees in the period.</div>	<div><div>↓</div><div>120bps</div><div><div>2018</div><div>2019</div><div>2020</div></div><div><div>15.9%</div><div>13.6%</div><div>12.4%</div></div></div>	<div>We saw a decrease in employee turnover in the period despite operating in competitive markets.</div>	<div><div><div><div></div><div></div></div></div><div><div>Attracting and retaining the best employees is critical to the successful execution of our strategy.</div></div></div>


Key to Strategic Growth Drivers:

-  Pipeline Delivery
-  Portfolio Focus
-  Geographical Expansion
-  Acquisition

Key to Strategic Enablers

-  Technology
-  People
-  Manufacturing and Supply Chain

Key

-  Long Term Incentive Plan (LTIP) performance condition

Strategy in Action

Strategic Enabler

People Impact of COVID-19

We believe that we have both a legal and moral duty to protect the health, safety and wellbeing of our employees. At the early stage of the COVID-19 pandemic we formed a Dechra Corona Committee to coordinate our health, safety and wellbeing response to keep all our employees safe.

The Dechra Leadership Teams have maintained regular communication throughout the crisis with employees across the whole business and have provided financial, physical and mental support. We have made it clear to our employees consistently that their safety and the safety of our customers is our number one priority. We have used the Group intranets and global emails to communicate key messages, in addition, we have encouraged everyone to share ideas for improvement and to raise any concerns they may have. In June, we carried out a COVID Survey hosted by Great Place to Work which approximately 650 of our employees were able to respond to. We were very pleased with the survey results where we scored either on or above the benchmark in 14 of the 16 elements of the survey. We also collected some valuable free format responses that have helped us continue to shape our employee centric response. We are very pleased that our employees have responded so positively during the crisis and adapted quickly to new ways of working, demonstrating the agility that is a core part of our culture.

Given the current financial position the Company is in, we took the decision not to furlough any of our employees and have been supportive and flexible with employees to assist with their individual personal circumstances. We supported our manufacturing and logistics employees, who have remained on-site throughout the pandemic. This support has included free lunches, vegetable boxes, support with transport to and from site, thank you letters and a special COVID award payment that was paid in June 2020 in recognition of the efforts of the team. In North America, the HR department visited the homes of all our employees in the Kansas and Maine areas, maintaining social distancing whilst dropping off care packages and staying in touch. All employees globally have been provided with reusable face masks for their personal use. Our inventive teams have come up with a wide range of ways to stay connected with their colleagues such as meeting virtually for coffee breaks, happy hours and exercise classes!

During the pandemic, where necessary we have continued to recruit for critical roles within the business and have developed virtual onboarding processes to support new employees joining us at this unusual time.

As we have planned how to return to our workplaces safely, we will continue to adapt the way that we work to maximise productivity, employee engagement and most importantly the ongoing health and safety of our team.

Health and Safety

We closely followed the guidance issued by the UK government and Public Health England and introduced new control measures and enhanced existing controls where appropriate. This guidance was enhanced with any specific country recommendations. We put in place the following measures:

- **Vulnerable colleagues** – All employees who had been advised to shield by the relevant governments stayed at home. We remain in contact with these employees, and any return to work will depend on a thorough individual risk assessment.
- **Homeworking** – All employees who were able to work from home did so. They were encouraged to take additional equipment home if this was needed and advice was issued to support ergonomic and mental health issues.
- **Manufacturing and Logistics** – We implemented staggered start and finish times to facilitate physical distancing when clocking in and out and when using changing rooms. This also allowed cleaning between shifts. We increased the frequency of cleaning across all of our sites and introduced increased sanitisation of communal areas and common touch points.
- **Our Sales Representatives** – Our mobile employees were asked to remain at home until travel, including international travel and overnight accommodation, can safely resume. From day one, they demonstrated their entrepreneurial spirit by arranging online Continuing Professional Development (CPD) events and arranging virtual meetings with veterinary clinics.
- **Business travel** – All non-essential business travel has been paused, including travel between Dechra locations. Attendance at conferences and large meetings has also ceased.
- **Health checks and self-isolation** – All employees have been encouraged to complete a daily health check, and any employee who has COVID-19 symptoms is encouraged to self-isolate in line with the relevant government guidelines, unless subsequent testing confirms a negative result. We have also asked all employees with household members with COVID-19 symptoms to self-isolate.
- **Training** – All employees have or will need to complete a Dechra training module 'COVID-19 Protective Measures', prior to returning to work so that everyone understands all the new hygiene and safety procedures. All mobile workers have completed additional training in the new hygiene precautions, and in readiness to return to the field, they have been provided with Hygiene Kits, so that they can achieve the high standards of hygiene when they resume travel.

Strategy in Action

Strategic Enabler

Technology Impact of COVID-19

Remote Working

During the initial phases of lockdown, the IT teams were tasked to consider the imminent needs of Dechra employees who would be required to 'Work away from the Office' for sustained periods. Although we do have a sizeable mobile user base who are already serviced remotely, we experienced a significant increase in users requiring extra IT kit: monitors, keyboards, laptops and VPN keys to access services securely from home. Once the initial configuration and supply of equipment had been overcome the team were inundated with calls to the helpdesk for support and training in the use of these remote services.

As the international communities moved to lockdown, we planned for an increase in home working and the need for extra IT hardware. The Global IT team also made several other arrangements in anticipation of a change in operational working. The IT managers commenced weekly meetings to review the overall performance of the remote services such as virtual meeting rooms, Internet connections into the office locations, the use of Skype and messaging, the increase of malicious attacks on employees devices, the amount of remote connections into head office from home users at any one time and the influx of helpdesk call logs across the IT Group.

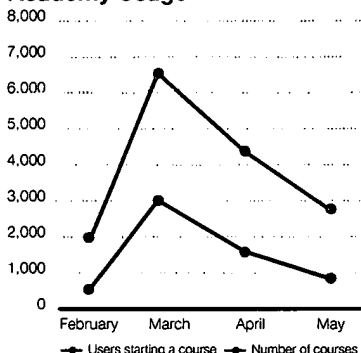
Within the first few weeks of lockdown, virtual meeting room usage increased by 200%, Skype meetings increased by 500%, the number of remote connections increased to a new daily high of 623, our network Internet connections increased traffic to 90% of capacity and the influx of calls into the helpdesk increased by 31%. The team had worked to implement counter measures in advance doubling our virtual meeting room capacity, increasing our Skype business server's memory capacity by 300%, increasing the numbers of remote connection licences by 200% and where possible our Internet connections flexed up to their maximum bearer capacity to accommodate extra remote connectivity.

It is to the credit of the team that they have managed to provide a consistent level of service to the Group throughout this difficult time and were able to transition over 60% of our workforce to home working virtually overnight. In addition, the entire IT team also moved to predominantly homeworking themselves in line with lockdown measures, with a skeleton crew supporting the hardware on-site.

Dechra Academy

There is no escaping the impact that the COVID-19 outbreak has had on the veterinary community globally, but as it is an online resource, our Academy was able to meet the increased demand for support.

Academy Usage



Two Global Market research activities* highlighted The Dechra Academy as one of the most useful resources to the profession. One UK veterinarian cited that "the best advice/support received during the COVID-19 outbreak was *Vetoryl* and *Zycortal* webinars on managing conditions within fewer clinics".

The Academy was also able to support the launch of an online clinical trial, the first of its kind, to enable a Diabetic Clinical Study to continue, despite the restrictions of the pandemic.

Normally, a detailed protocol describing the steps involved in reaching the study objective is developed over months by the Dechra study team and shared with the veterinary hospital performing the study through a half-day intensive training session. Typically, the Dechra study team is on-site to deliver this training, but in the midst of the COVID-19 pandemic, we had to deliver the training remotely. Therefore, the study team members pre-recorded key training modules and collaborated with the Digital Learning team to upload these to the Dechra Academy for access by study site personnel. Modules were kept under 30 minutes each to allow viewers greater flexibility in how they could complete the training. A quiz was put in place to confirm comprehension. The Academy tracked the time and date in each module, quiz score, and percentage completed. Results were emailed to the study team daily for easy tracking. Additionally, a feedback survey was added to obtain important information for the improvement of the process and platform.

These pre-recorded modules were supplemented with a shorter, live GoToMeeting with the study team to answer questions, confirm compliance, review critical procedures, and discuss any concerns the sites may have. Having reviewed the study background and procedures through the recorded modules prior to the live training, site personnel arrived at the live training better prepared with questions for the study team making the live interaction shorter and more efficient.

Building strong relationships with study site personnel is crucial to running a good clinical study and it is unfortunate that the study team missed an opportunity to visit the veterinary clinics carrying out our research. Despite this setback, the study team's partnership with Digital Learning created an alternative that enabled the study to start on time whilst maintaining everyone's safety. Whilst this approach will not be suitable with every new study and every site, it provides an alternative in delivering training to both internal and external parties.

Feedback from attendees has been very positive and they appreciate Dechra's solutions to provide training in the COVID-19 environment. Study participants commented that it would be helpful to have a combination of remote and live training in the future. The training modules would provide background and general knowledge about the study whilst the live training would be focused and more productive and hands-on while building strong relationships.

* CM Research – Impact of COVID-19 on Veterinary Practices (Wave 4) & Kadence – Veterinary COVID study.

Strategy in Action

Strategic Enabler

Manufacturing and Supply Chain Impact of COVID-19



Our manufacturing and logistics facilities have remained open and fully operational throughout the COVID-19 pandemic. We are proud of the way our employees quickly adapted to the new ways of working and the commitment they showed during this difficult time. All our Manufacturing and Logistics facilities adopted safe ways of working such as physical distancing, and increased respiratory, hand and environmental hygiene measures in line with their respective country guidance, the alert level present in each country and our own internal risk assessment.

Although all the changes which were implemented were essential to protect our employees, these have affected our Manufacturing and Logistics output in some areas particularly where line speeds were reduced and product schedules changed to enable employees to continue to work safely.

Personal Protective Equipment (PPE) is essential across our manufacturing facilities as it provides protection to our employees from exposure to hazardous substances. At various times throughout the pandemic PPE became scarce and more costly. We were also acutely aware that we and other sectors may be competing with the needs of essential healthcare services. Therefore we strictly controlled our existing supplies, sourced reusable items to reduce our consumption and avoided stockpiling items that may be in short supply. Despite increased costs and depleted availability we have maintained the required high level of protection for our employees throughout the pandemic and have never compromised on safety.

The hygiene standards at our manufacturing and logistics facilities are already high and in line with Good Manufacturing Practice standards. However, we enhanced these where we felt this was necessary and in some cases this necessitated us losing time in the production schedule to create time separation and allow cleaning between our shifts. This not only protected our employees from contact with members of other shifts but also significantly limited opportunities for transmission of the virus, reducing the risk of absence due to self-isolation.

Supporting our essential workers was paramount during these difficult times, from checking that they had the correct permissions to be at work during the lockdown periods to providing a safe commute to the workplace. We provided items to maintain good hygiene when travelling via public transport and provided alternative or adapted means of communal transport where appropriate.

To protect our workforce further we limited access to our sites for any non-essential visitors and contractors. Although we allowed all essential statutory visits and inspections to progress, these were strictly controlled using health declarations for anyone coming to our sites. For deliveries and collection of materials, where drivers were likely to have crossed borders, protective measures were taken at each site to meet the welfare requirements of the drivers, whilst keeping them away from our own employees.

We are pleased to report that our controls have been successful in preventing the transmission of the virus across our workplaces whilst fully maintaining the supply to our customers. Where we have had colleagues who have acquired the infection in the community we have supported them throughout their illness and self-isolation periods until a safe return to work was agreed. This has meant that we have experienced increased absence levels; however, the impact of absence has been minimal.

Throughout the pandemic we have regularly communicated and consulted with our Manufacturing and Logistics employees. We have also encouraged our whole workforce to share ideas for improvements and to raise any concerns they may have. Whilst the pandemic remains, our controls will be maintained and enhanced to continue to protect our employees.

Product Development

Although some products may have a slightly different path, most novel and generic products follow a fairly standard process containing six phases, defined as: **EVALUATION**, **FEASIBILITY**, **RESEARCH**, **DEVELOPMENT**, **REGISTRATION** and **LAUNCH**.

12

Projects in Feasibility

7

Projects in Research

10

Projects in Development

8

Projects in Registration

Dechra employs a structured process in its pharmaceutical and vaccine development pipeline while retaining an opportunistic and entrepreneurial approach. Focus is given to the Group's therapeutic sectors, and new development 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 medium to long term realisation with attractive high value returns, while generic developments generally have shorter timescales with returns dependent upon the number of other entrants and speed to market relative to competition.

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

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

Generating and Prioritising Ideas

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

Making the Chemistry Work

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

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

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

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

Entering the Development Phase

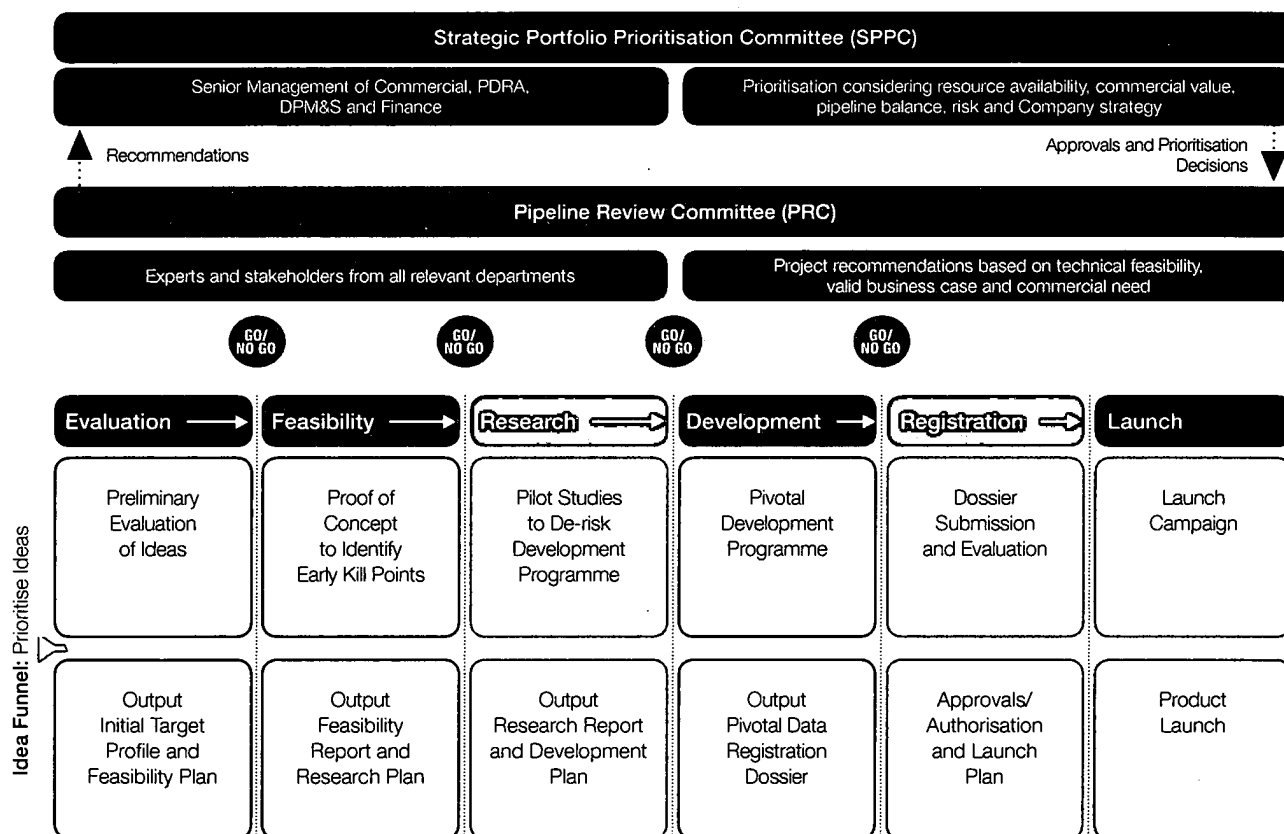
The **DEVELOPMENT** phase is the longest part of the process, potentially taking between two to four years. After the formulation has been demonstrated to be stable, up to three registration batches are manufactured for use in safety studies, efficacy studies and stability testing. For generic products,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

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

Stage Gate Process

The Pipeline Review Committee analyses each project after each phase for technical or regulatory risks and issues, and for any changes to the business case. Project decisions are endorsed by the Strategic Portfolio Prioritisation Committee which also prioritises projects based on their overall commercial and strategic value within resource constraints.

→ Read more about our **Product Development** on page 63



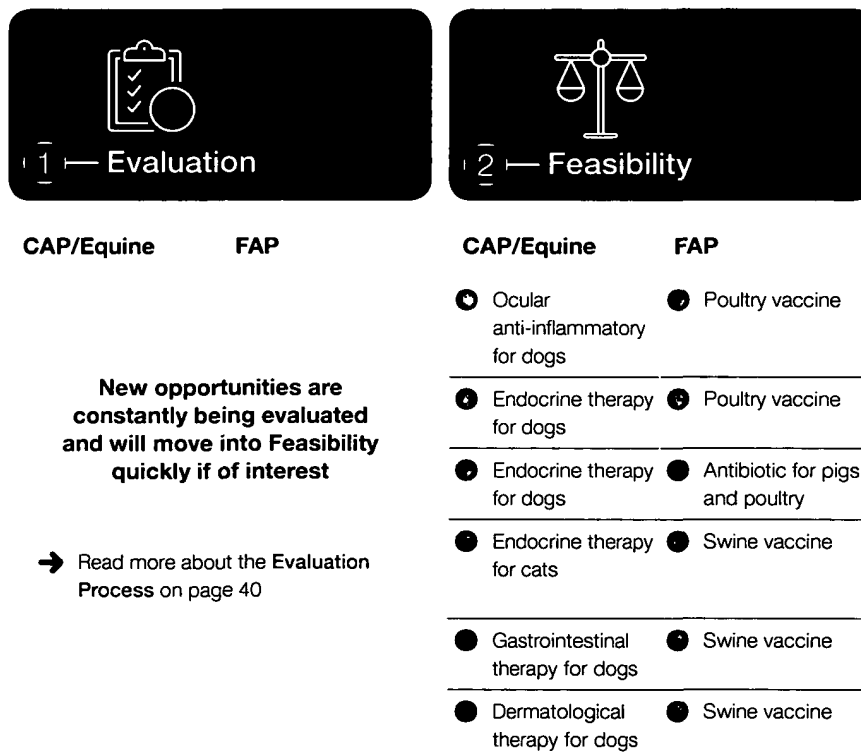
Product Development continued

Product Pipeline

Delivering a strong and robust pipeline is one of the Group's strategic priorities. The chart outlines the status of the major projects. Owing to the nature of product development, the content of our pipeline will change over time as new projects progress from Evaluation to market or as projects are terminated. For competitive reasons, exact project details are not disclosed.

Key to Product Pipeline Our Key Therapeutic Sectors

Analgesic, Anaesthesia, Anti-inflammatory	●
Antimicrobial	●
Antiparasitic	●
Cardiology	●
Dermatology	●
Endocrinology	●
Gastrointestinal	●
Vaccines	●
Lameness	●





3 — Research

CAP/Equine

- Anaesthetic for dogs and cats

- Endocrine therapy for cats

- Gastrointestinal therapy for horses

- Endocrine therapy for horses

- Anaesthetic for cats

FAP

- Antibiotic for cattle, pigs and poultry

- Antibiotic for pigs



4 — Development

CAP/Equine

- Antibiotic for dogs and cats

- Analgesic therapy for dogs

- Analgesic therapy for horses

- Lameness therapy for horses

- Gastrointestinal therapy for dogs

- Dermatological therapy for dogs

- Lameness therapy for horses

- Dermatological therapy for dogs

FAP

- Poultry vaccine

- Paraciticide for poultry and pigs



5 — Registration

CAP/Equine

- Cardiovascular therapy for cats (Le Vet)

- Gastrointestinal therapy for dogs

- Analgesic therapy for dogs

- Dermatological therapy for dogs (Le Vet)

- Analgesic therapy for dogs

- Gastrointestinal therapy for dogs

- Anaesthetic for dogs

FAP

- Antibiotic for cattle and pigs

→ Read more about running a clinical study during **COVID-19** on page 37

International Product Offering

Endocrinology

Key Product	Australia	Austria	Belgium	B&H	Brazil	Canada	Croatia	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	Netherlands	NZ	Norway	Poland	Portugal	Serbia	Slovenia	Spain	Sweden	UK	US
<i>Felimagazole</i>	•	•	•			•		•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
<i>Forthyron</i>	•	•	•					•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
<i>Vetoryl</i>	•	•	•		•	•		•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
<i>Zycortal</i>	•	•	•			•		•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•

Dermatology and Care

Key Product	Australia	Austria	Belgium	B&H	Brazil	Canada	Croatia	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	Netherlands	NZ	Norway	Poland	Portugal	Serbia	Slovenia	Spain	Sweden	UK	US
<i>Canaural</i>	•	•	•			•		•	•	•		•	•			•	•	•	•	•	•	•	•	•	•
<i>Isaderm</i>	•	•	•			•		•	•	•	•	•	•		•	•	•	•	•	•	•	•	•	•	•
<i>Malaseb/Miconahex</i>		•	•			•		•	•	•	•	•	•		•	•	•	•	•	•	•	•	•	•	•

Anaesthesia and Analgesia

Key Product	Australia	Austria	Belgium	B&H	Brazil	Canada	Croatia	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	Netherlands	NZ	Norway	Poland	Portugal	Serbia	Slovenia	Spain	Sweden	UK	US
<i>Atipam/Sedastop</i>		•	•						•	•	•	•	•	•	•		•	•	•	•	•	•	•	•	•
<i>Comfortan</i>		•	•					•	•	•	•	•	•	•	•		•	•	•	•	•	•	•	•	•
<i>Sedator/Sedastart</i>		•	•						•	•	•	•	•	•	•		•	•	•	•	•	•	•	•	•
<i>Tralieve/Tramadol</i>	•	•	•						•	•	•	•	•	•	•		•	•	•	•	•	•	•	•	•
<i>Vetivex</i>			•					•	•	•	•	•	•						•	•	•	•	•	•	•

Cardiovascular

Key Product	Australia	Austria	Belgium	B&H	Brazil	Canada	Croatia	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	Netherlands	NZ	Norway	Poland	Portugal	Serbia	Slovenia	Spain	Sweden	UK	US
<i>Cardisure</i>	•	•	•					•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•

Ophthalmology

Key Product	Australia	Austria	Belgium	B&H	Brazil	Canada	Croatia	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	Netherlands	NZ	Norway	Poland	Portugal	Serbia	Slovenia	Spain	Sweden	UK	US
<i>Isathal</i>	•	•				•		•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•

Antibacterial and Antibiotics

Key Product	Australia	Austria	Belgium	B&H	Brazil	Canada	Croatia	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	Netherlands	NZ	Norway	Poland	Portugal	Serbia	Slovenia	Spain	Sweden	UK	US
<i>Amoxi-Clav/Clavubactin</i>	•	•					•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
<i>Cefpodoxime Proxetil</i>																									•
<i>Enroquin/Enrofloxacin</i>	•				•											•									•
<i>Metrobactin</i>		•	•			•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•

Equine Medicine

Key Product	Australia	Austria	Belgium	B&H	Brazil	Canada	Croatia	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lands	NZ	Norway	Poland	Portugal	Serbia	Slovenia	Spain	Sweden	UK	US
Domidine		•	•			•			•	•	•	•	•		•			•	•			•	•	•	
Equipalazone	•							•		•	•	•			•	•						•	•	•	
HY-50			•			•		•	•		•		•		•	•	•					•	•	•	
Osphos	•	•	•			•			•	•	•	•	•	•	•	•		•	•			•	•	•	•

Food producing Animal Products

Key Product	Australia	Austria	Belgium	B&H	Brazil	Canada	Croatia	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lands	NZ	Norway	Poland	Portugal	Serbia	Slovenia	Spain	Sweden	UK	US
Cyclospray		•	•	•		•	•	•		•	•	•	•	•	•	•		•	•	•	•	•	•	•	
Methoxasol		•	•					•		•	•	•	•	•	•			•	•	•	•	•	•	•	
Octacillin/Solamocta		•	•					•		•	•	•	•	•	•			•	•	•	•	•	•	•	
Rapidexon		•	•					•	•	•	•	•	•	•	•			•			•	•	•	•	
Soludox		•	•					•		•	•	•	•	•	•			•		•	•	•	•	•	
Centidox			•							•	•	•	•	•	•						•	•	•	•	
Altidox		•								•	•							•							

Nutrition

Key Product	Australia	Austria	Belgium	B&H	Brazil	Canada	Croatia	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lands	NZ	Norway	Poland	Portugal	Serbia	Slovenia	Spain	Sweden	UK	US
Specific			•					•	•	•		•			•			•		•	•			•	

Vaccines







Key Product	Australia	Austria	Belgium	B&H	Brazil	Canada	Croatia	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lands	NZ	Norway	Poland	Portugal	Serbia	Slovenia	Spain	Sweden	UK	US
Avishield ND			•	•			•				•				•			•		•	•			•	
Excell 10					•																				
Vencomax					•																				

Other Companion Animal Products

Key Product	Australia	Austria	Belgium	B&H	Brazil	Canada	Croatia	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lands	NZ	Norway	Poland	Portugal	Serbia	Slovenia	Spain	Sweden	UK	US
Carprofen	•	•	•						•	•			•	•	•			•			•	•	•		•
Libromide		•	•					•	•	•	•	•	•	•	•			•	•			•	•	•	
Phenoleptil		•						•		•	•	•	•	•	•		•					•	•	•	
Phycox																									•
Prevomax		•	•			•	•	•	•	•	•	•	•	•	•		•	•	•		•	•	•	•	

Section 172 Statement

The Board is responsible under section 172 of the Companies Act 2006 for promoting the long term success of the Company for the benefit of its shareholders, and acknowledges that its decisions have a long term impact on other stakeholders, the environment and the Company's reputation for high standards of business conduct. The Board appreciates that wider engagement with stakeholders is an important component of long term sustainability and success and believes that by engaging with all important stakeholders, the business is made stronger and more resilient. The table below shows who the Board has identified as important stakeholders, why they feel it is important to engage, how they have engaged and where you can read more information on the Board's approach to their section 172 duty.

Stakeholder	Why it is important to engage	How we engage	Material interests	Where you can read more
Employees 	To make Dechra a great and safe place to work, and attract, retain and develop talent	<ul style="list-style-type: none"> • Group intranet • Town Hall meetings • Engagement surveys • Employee Engagement Designated Non-Executive Director • Performance Development Reviews, and employee development and training 	<ul style="list-style-type: none"> • Development opportunities • Making a difference • Agile and friendly place to work 	<ul style="list-style-type: none"> • Strategy in Action: People • Corporate Social Responsibility • Governance
Veterinary Professionals 	To improve animal health and welfare	<ul style="list-style-type: none"> • Educational and training programmes • Technical support via helplines and product information • PhD veterinary student funding 	<ul style="list-style-type: none"> • Innovative and effective products • Information on correct use of products • Educational opportunities 	<ul style="list-style-type: none"> • Corporate Social Responsibility • Governance
Shareholders 	To instil trust and confidence and allow informed investment decisions to be made	<ul style="list-style-type: none"> • Annual Report and RNS announcements • Annual General Meeting • Investor presentations • Corporate website • One-on-one meetings 	<ul style="list-style-type: none"> • Financial performance • Delivery of strategy • Environmental, Social and Governance performance 	<ul style="list-style-type: none"> • Corporate Social Responsibility • Governance • Financial Review • Financials
Communities 	To give back to the communities in which we operate	<ul style="list-style-type: none"> • Community activities • Group donations • Product and local donations • Development and education of young people 	<ul style="list-style-type: none"> • Prosperity within our communities • Community projects and initiatives 	<ul style="list-style-type: none"> • Corporate Social Responsibility • Governance
Suppliers 	To trade with honesty and integrity, and to source quality raw materials, finished products and services	<ul style="list-style-type: none"> • Quality audits • Due diligence • ABC training • Third Party Code of Conduct 	<ul style="list-style-type: none"> • Fair Payment Terms • Long term relationships 	<ul style="list-style-type: none"> • Corporate Social Responsibility • Governance • Other Disclosures
Regulatory Authorities 	To meet high standards of product safety and efficacy	<ul style="list-style-type: none"> • Regulatory training for employees • Manufacturing facility inspections • Market authorisation applications • Product safety update reports (PSURs) 	<ul style="list-style-type: none"> • Safety • Efficacy • Responsible marketing of regulated pharmaceuticals 	<ul style="list-style-type: none"> • Product Development • Corporate Social Responsibility

The following examples give an insight on how Directors have considered section 172 factors in their decision making in relation to material transactions during the year:

Equity Raising

In May, the Board considered the proposal to conduct a non-pre-emptive placing representing approximately 5% of the Company's existing issued share capital.

In consideration of section 172 duties, it was agreed by the Board that the placing would provide enhanced financial strength, resilience and flexibility through a period of uncertainty arising from COVID-19. This would improve the long term prospects for the business as it would not be constrained in taking advantage of any bolt-on acquisitions as these arise, with Acquisition and Pipeline Delivery being two of the strategic drivers of the business.

The Company had previously communicated a strategy of maintaining leverage below 2 times which could be increased to 2.5 times for the right acquisition. It was noted that following the proposed completion of the acquisition of *Osurnia* the pro forma leverage would be at the top end of the Company's policy.

In addition, the placing would be in the best interests of employees, suppliers and customers as although trading remains robust it is unclear how long the current COVID-19 situation would last, which may impact business performance, cash generation and the effect

of foreign exchange volatility on leverage. A fundraising would provide additional prudence to the balance sheet. In particular:

- the fundraising would enable the Group to continue with the decision of not furloughing during the pandemic; and
- the business had invested significant resources to maintain an adequate supply of raw materials and finished goods to meet the market demands during the pandemic for customers.

Although the placing would only be offered to a select number of holders and non-holders, the Annual General Meeting authority permitted the allotment of ordinary shares for cash on a non-pre-emptive basis. The Directors considered the likely impact of COVID-19 on a conservative basis for the next financial year ended June 2021, and that this could impact the likely pricing of the equity issue and have a subsequent effect on the price of Dechra shares and the value of shareholder's investments, particularly those who were not able to participate in the placing.

Product Acquisitions

The Board approved the *Mirataz* and *Osurnia* product acquisitions during the year. The Board, in considering both proposals, noted that the acquisitions were in line with the strategic driver of portfolio focus. In relation to:

- *Mirataz*, the product is the only approved transdermal medication for weight gain in cats, and as it is indicated for cats with underlying medical conditions it would keep more cats alive; and
- *Osurnia*, the product is a two-dose effective treatment for otitis externa (inflammation of the outer ear) in dogs. This enables veterinarians to be in control of the accuracy and compliance of the medication, and therefore owners do not have to participate in what they (and their dog) often perceive as the painful daily or twice daily administration of ear medication.

In addition, the Board took into consideration the viewpoints of key commercial leads within the organisation in relation to the market opportunities of both of these products. In relation to *Osurnia*, it also considered a summary of the Group Quality and Supply Chain audit of the existing Contract Manufacturing Organisation.

The Board agreed that both of the acquisitions would:

- enhance Dechra's presence and provide a unique offering to veterinarians;
- deliver increased shareholder returns;
- broaden the portfolio of products for the sales team; and
- improve animal welfare.

Corporate Social Responsibility

Our Purpose

is the sustainable improvement of global animal health and welfare.

The Board takes ultimate responsibility for Corporate Social Responsibility (CSR) and is committed to developing and implementing appropriate policies that create and maintain long term value for shareholders. During the year, our newly formed CSR committee, made up of representatives from across the Group, reviewed the Group's CSR strategy along with the various frameworks for reporting, and published sustainability reports on Dechra, the latter identified reporting gaps where we could have provided more information on our activities.



With this in mind and sustainability at the heart of our Purpose, we have chosen to link our CSR strategy to the United Nations Sustainable Development Goals (SDGs) as we felt that this would provide a framework for our activities and subsequent communication thereof. We have retained the four pillars (Community, Business, Environment and People) of our CSR strategy, and we compared our objectives for these pillars with the SDGs. We identified that our activities would impact ten of the 17 SDGs of which three would be material. The three SDGs in which we can have the most material impact are Quality Education, Decent Work and Economic Growth and Responsible Consumption and Production.

We are in the process of gathering data so that we can set targets for our objectives and hope to report on these targets next year.

Most material UN SDGs

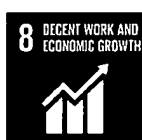


UN Goal: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

Dechra's Impact: Providing educational programmes and solutions to improve animal health and welfare

Relationships with veterinarians are core to the business and we:

- enhance the health of animals by providing vital education for animal health professionals;
- provide added value services in the form of educational programmes focused on key therapeutic areas; and
- work with academia to support the development of new drugs as well as educational programmes.



UN Goal: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Dechra's Impact: Enhancing the skills of our workforce, planning for a successful future and improving the working lives of our people

Committed to enhancing the skills of our workforce by:

- aligning employee efforts and driving productivity through effective goal setting, feedback and focus on development;
- offering internships, apprenticeships and placements Group-wide;
- providing training opportunities to young people and/or disadvantaged people;
- routinely investing in safety of employees; and
- providing a healthy workplace to improve the working lives of our people.



UN Goal: Ensure sustainable consumption and production patterns

Dechra's Impact: Minimising the impact of our operations on the environment

Adopting responsible environmental practices and giving consideration to minimising the impact of operations on the environment by:

- reducing packaging materials and pallets;
- using sustainable raw materials in nutrition range;
- optimising energy use through various means; and
- investing in eco-friendly and cost-effective distribution systems.

Corporate Social Responsibility continued

Our People



Stakeholders Involved

- Employees

Linkage to UN SDGs



Key Focus Areas

- Culture and Values
- Talent Management and Engagement
- Fair Employment Practices
- Diversity and Inclusion
- Safe Working Practices

Policy

- A great and safe place to work.

Objectives

- strengthen and communicate the Dechra culture and strive to ensure our Values encompass our business ethics and standards;
- attract, retain and develop talent to build and maintain a top quality team;
- comply with national legal requirements regarding wages and working hours;
- value the difference and diversity of people, recognise that their skills and abilities are strengths that can help us to achieve our best; and
- reinforce a culture of safe working practices.

→ Read more about **Our People** on pages 52 to 57

Stakeholders Involved

- Employees
- Local Community

Linkage to UN SDGs



Key Focus Areas

- Waste
- Energy
- Sustainable raw materials

Policy

- We are committed to minimising the impact of our operations on the environment by adopting responsible environmental practices and complying with applicable environmental legislations.

Objectives

- prudent use of all natural resources, the minimisation of waste in all activities, and the appropriate disposal of waste;
- optimise the energy we use, improve energy effectiveness through initiatives on transport and reduce our greenhouse gas emissions; and
- use sustainable raw materials in our nutrition range wherever practicable.

→ Read more about **Our Environment** on pages 58 to 62

Our Business



Stakeholders Involved

- Employees
- Veterinary Professionals
- Suppliers and Distributors
- Universities and Key Opinion Leaders

Linkage to UN SDGs



Key Focus Areas

- Life of our Products
- Veterinary Professionals
- Ethics

Policy

- To provide innovative products and, technical and educational support to veterinarians.
- We are committed to acting responsibly and with integrity.

Objectives

- develop and promote products to improve animal welfare;
- maintain and improve the knowledge and skills of veterinarians who prescribe and use our products; and
- act with honesty and with integrity.

→ Read more about **Our Business** on pages 63 to 66

Our Community



Stakeholders Involved

- Local Community
- Charities and non-profit organisations

Linkage to UN SDGs



Key Focus Areas

- Community Activities
- Community Donations
- Community Employment

Policy

- To contribute to the social and economic welfare of the local communities in which we operate.

Objectives

- contribute towards charitable causes through the donation of time, products and skills.

→ Read more about **Our Community** on pages 67 and 68

Corporate Social Responsibility continued

Our People



12.4% **52%** **0.17**

Employee Turnover Females in Workforce Lost Time Accident Frequency Rate

We employ approximately 1,900 employees in 25 countries in a wide range of working environments including manufacturing, logistics, laboratories, offices and mobile working. At Dechra, we acknowledge that our people are our greatest asset and know that an inclusive culture is beneficial for our business performance. Our ongoing objective is to continue to be a purpose focused business driven by high performing and committed teams.

We are committed to the following focus areas:

- Culture and Values: strengthening and communicating the Dechra culture and striving to ensure our Values encompass our business ethics and standards;
- Talent Management and Engagement: attracting, retaining and developing talent to build and maintain a top quality team;
- Fair Employment Practices: complying with national legal requirement regarding wages and working hours;
- Diversity and Inclusion: valuing the difference and diversity of people, recognising that their skills and abilities are strengths that can help us to achieve our best; and
- Safe working practices: reinforcing a culture of safe working practices.

Headcount Per Country

Our original people plan was developed six years ago to support the delivery of the Group's five year plan.



Following significant progress, we adapted the people plan in the 2017 financial year to support the delivery of the evolving business goals and the continuous expansion of the Group.

- 1 Accelerate Performance:**
Align employee efforts and drive productivity through effective goal setting, feedback and focus on development.
- 2 Grow Our Own Talent:**
Attract, retain and develop the right talent in the right place at the right time.
- 3 Strong Culture and Values:**
How we do things around here.
- 4 Engaged and Committed Workforce:**
A great place to work.
- 5 Healthy Workplace:**
Improving the working lives of our people.
- 6 Shared Services and Systems:**
Efficient infrastructure supporting commercial operations.

Culture and Values

Our Values, entrepreneurial attitude and agile approach to the way we do things are the backbone of our Culture. We expect our people to make a difference by working together and we support them by providing clear guidance on expectations.

We believe that our Values encapsulate our business ethics and set the standards that we wish to achieve and ultimately exceed. They outline the type of people we are, the services we provide and the way we aim to do business.

Dedication

- We are dedicated to delivering products and services that meet the highest level of service and quality to our customers
- We continually look to better our ways of working, resulting in a culture of continuous improvement
- We encourage people to make decisions

Enjoyment

- We provide challenge for our people within their roles to help them be motivated and engaged and encourage learning and development
- We endeavour to create an environment where our people want to come to work and feel a part of Dechra
- We generate enthusiasm and energy through positive thinking and actions

Courage

- We want a business where we dare to challenge each other, where innovation and creativity can flourish
- We encourage each person to be proactive and to take initiatives, creating a strong and competitive spirit
- We encourage everyone to have confidence in themselves and have the strength and character to question the status quo

Honesty

- We act with integrity and fairness and treat everyone with respect; in our business every job is important
- We are honest and open in all interactions
- Openness is supported at all levels of the organisation

Relationships

- We see our customers and suppliers as business partners and thereby work together to achieve common success
- We know that success is built on collaboration and cross-organisational teamwork to produce better results together

Ambition

- We are purpose driven and deliver solid results through our energetic and resilient approach
- Our ambitions mean that we deliver the highest possible levels of quality and services to our customers and to each other

Our Values are supported by our Code of Conduct. We encourage all employees if they see or suspect something which they believe to be a breach of Dechra's standards of conduct, to report their concerns via our How to Raise a Concern procedure. We offer four reporting channels for concerns to be raised: Line Manager; the Senior Management Team; Group Management Team; and a mailbox accessed only by the Company Secretary. Every effort will be made to protect confidentiality to encourage reporting. The How to Raise a Concern procedure has been translated into eight languages.

We will fully investigate reports and take appropriate actions to address these. The actions taken will depend on the circumstances and the severity of the issues identified. These actions may include process improvements, training and coaching, or formal disciplinary actions up to and including termination of employment for the most severe issues. The Board receives a summary of the investigation reports.

Corporate Social Responsibility continued

Talent Management and Engagement



28

Interns

239

Delta Courses

Talent Management

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

Delta

Since July 2016, we have been utilising an e-learning management system, Delta, which hosts courses on topics ranging from induction and software skills to compliance matters such as pharmacovigilance and ABC. In February the Digital Learning Team launched a new version of Delta, the culmination of 18 months of effort. The new system is part of our five year Learning and Development strategy and is intended to

improve the user experience, accessibility and compliance. This also marks a shift in training methodology from one where we push training onto our employees, to one in which the user pulls the desired training content themselves.

In addition to using the most up-to-date design principles, we are now also running internal communications and HR campaigns from within the system, maximising the exposure to our employees.

Over the past 12 months 71 new courses, including a number of COVID-19 courses and our new onboarding course, were made available. More recently, the impacts of COVID-19 have demonstrated just how valuable a resource our Delta platform is, with a surge in usage of over 200%.

Planned projects for next year include the expansion of the Digital Learning Team, additional soft skill training courses and the introduction of artificial intelligence (A.I.) powered content recommendations.

However, this is only one element of training that we provide, and although we do not currently collate training hours across the Group, we provide other forms of training to our employees, placement students and graduates.

DPM Leadership Programme



Under Simon Francis' leadership, a number of internal promotions were made whilst he built the management team of Dechra Pharmaceuticals Manufacturing & Supply (DPM&S), and he also recruited a number of new team members from outside the Dechra Group. As part of bringing this team together to perform at their best, a progressive approach to leadership development was implemented.

The development programme's strategic intent was:

- to develop fit for purpose senior leadership by improving readiness and capabilities that deliver success; and
- building confidence for internal and external stakeholders that the business has access to talented, ready now and emerging leaders.

The key learning objectives of the programme for the team are to build on executional excellence, develop the capacity to build and establish value creating teams, have an agile and future facing leadership, and continue to focus on having an inclusive approach and being culturally aware.

As the programme content was being developed, the pandemic broke out and the brunt of the impact of COVID-19 fell on the DPM&S leadership team as they managed to maintain site operations throughout. Keeping our people safe through the constantly changing working environment was the number one priority, together with maintaining supply of vital products to our customers. During this difficult time the team sadly lost their leader, colleague and friend Simon Francis to COVID-19.

Following the appointment of Milton McCann into the Interim Manufacturing Director role it was agreed that investing in the team was even more important now. Although, now no longer able to meet face to face to undergo planned development sessions, delivery of the programme has transitioned to a digital platform. This has been co-designed with Create Express using a variety of leading edge tools including gamification, social learning, learn and unlearn techniques, forming excellence as a habit and broadening business acumen.

Moving the programme into the virtual realm, for 16 people, across four time zones and six global locations together with keeping business as usual running during a pandemic has been no mean feat. The launch of the programme took place at the start of June, commencing with psychometric and cognitive assessments of the team, and has been followed by online team business simulations, team and peer coaching and virtual content which will continue to be delivered during the rest of 2020.

Kevin Villalongo, who joined the Company as the Site Director at Fort Worth on 16 March 2020 said: "This programme has enabled me to meet the team virtually, gain a rapid understanding of the skills I need for the future and has shown me that the Company wants to invest in me, especially at this time which is really encouraging. Facing our future together is really positive."

Catherine Dent, Group HSE Director commented: "It's been great that we have been able to continue with our personal and team development throughout the pandemic. Over the last few months many things have been paused due to our response to the global crisis, therefore it demonstrated real commitment from Dechra and it was exciting when we received our invitations to the virtual Leadership Development programme. In addition to learning more things about ourselves and our own development areas, doing this virtually also helps us to adapt to new remote ways of working and is helping us reach out across country borders and work more effectively with colleagues. We may not be in the same room but we are all still really connected and having fun."

The programme is being designed using an iterative approach which enables the team and individual inputs to be tailored based on the initial stages. The next steps for the programme are to roll out a similar model to the emerging leaders across DPM&S and, where appropriate, to other key functional groups across the Group.

Apprenticeships and Internships

We believe that offering internships and apprenticeships is a great way to attract new employees to Dechra. We offer a small number of internship opportunities each year. We have been delighted with the quality of young people who have worked with us and we hope that the experiences of working with Dechra will support them in their future careers. We currently have 14 interns in Europe and 10 in Brazil.

Engagement

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

seek to engage our employees in change projects. We also have a small number of Works Councils we regularly meet with.

In order to continue to retain our qualified and skilled employees, and to attract new employees we conducted an Employee Engagement Survey in March 2018 using the Great Place to Work (GPTW) survey. The results of the survey were disclosed in the 2018 Annual Report. The survey was rolled out to the newly acquired Brazilian business in May 2019, the results of which are detailed in the below case study. We were proposing to launch the second Group-wide survey in March 2020; however, due to COVID-19 we decided to postpone this. In June, we carried out a COVID survey hosted by Great Place to Work which approximately 650 of our employees were able to respond to. We were very pleased with the survey results where we scored above the benchmark in the majority of the 16 statements.

During the year, Lisa Bright, in her role as the Employee Engagement Designated Non-Executive Director, met with the employee elected Works Council at our Skipton, UK site. Further information on this can be found on page 90.

Employee Engagement Survey in Brazil



Our Dechra entity in Brazil is a relatively new acquisition (December 2018) and a clear step into a fascinating market both culturally and commercially. One of the first activities the management team decided upon was to make employees feel engaged with the parent company and understand that they were now employed by a larger multinational organisation who would have different demands, expectations and opportunities.

To support the strategic people plan, in May 2019 they took part in 'The Great Place to Work' survey. One of the statistics, not unsurprisingly, was a certain level of mistrust with the Trust Index only reaching 63%. It was important to demonstrate tangibly that Dechra's intentions were to invest in the business to increase site capacity, production quality and regulatory compliance. However, of equal importance was to also invest in improving the working conditions.

The survey highlighted the rest facilities for use between shifts and the parking arrangements, as both being inadequate.

The business quickly addressed these concerns by converting:

- a redundant maintenance building into two spaces, the first a quiet zone with comfy seating for people to sleep, read or listen to music and a second space for a more communal area where there is a coffee machine, a table tennis table and other rest facilities; and
- a disused area, known locally as a chacara, a small plot of land, into parking. This space had become over grown and unsightly, so whilst needing some attention, it provided an excellent opportunity to build a 120 parking space car park with secure electronic gates.

The other action the Brazilian management team took was to create Engagement Teams, which consist of a communication team, a Values team and a people development team. These three teams are composed of employees from different areas of the business, with each team sponsored by one of the managers. Their role and responsibility is to bring ideas and solutions from the employees. This has meant that Dechra's employees can genuinely be part of the solution and evolution of the Company in South America.

Chacara before

Chacara after

Corporate Social Responsibility continued

Diversity and Inclusion



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

The Group gives full consideration to applications from disabled people, where they adequately fulfil the requirements of the role. Where existing employees become disabled, it is the Group's policy, whenever practicable, to provide continuing employment under the Group's terms and conditions and to provide training and career development whenever appropriate.

The Group does not tolerate bullying or harassment.

84% of our employees responded positively to the statement regarding diversity in the workplace in our employee engagement survey (2018 Engagement Survey). We firmly believe that our Dechra Values support the culturally diverse business that we have become, and although we are separated by time zones, geographically and by language we share common goals and ways of working that are underpinned by our Values.

The Board, via the Nomination Committee, reviews the Diversity Policy and its implementation on an annual basis. Further details can be found in the Nomination Committee Report on pages 101 to 103.

Fair Employment Practices



We are committed to fair employment practices and comply with national legal requirements regarding wages and working hours. In the UK, only one of our subsidiaries is required to report under Gender Pay Gap regulations, and we are pleased to report that our gender pay median gap has reduced from 17.7% in 2017 to 9.2% in 2018 and further again to 7.4% in 2019. This reduction is largely driven by an increase in the number of women in senior and technical roles.

➔ Read more about our Fair Employment Practices on page 66

Dignity at Work



Last year we acknowledged that as we continue to grow our business globally, we have to provide clear and accessible guidelines that make clear to all our employees how to behave whilst at work or representing Dechra. Our Values are at the heart of everything that we do, and we have developed a framework of guidance that all managers and staff need to know about. We want an open and transparent working environment where all our staff are treated equally and have the same opportunities, where problems can be raised and resolved in a timely fashion and where there is zero tolerance of inappropriate behaviours.

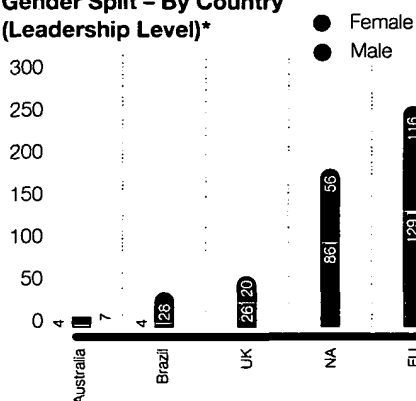
With this in mind, we introduced a new Dignity at Work policy that includes our approach to diversity and inclusion, bullying and harassment and employment of relatives and relationships at work. The policy has been launched in the UK and we are rolling out a global version of the policy by region.

In order to support this new policy, we partnered with ACAS* to develop an in-house training programme for all managers in the UK. The training was delivered over four days and in addition to covering the content of the policies, we also focused on provision of skills training to help managers deal with any of the issues covered in our employment policies, including handling investigations, when and how to escalate issues, dealing with the consequences of unacceptable behaviour and handling difficult conversations.

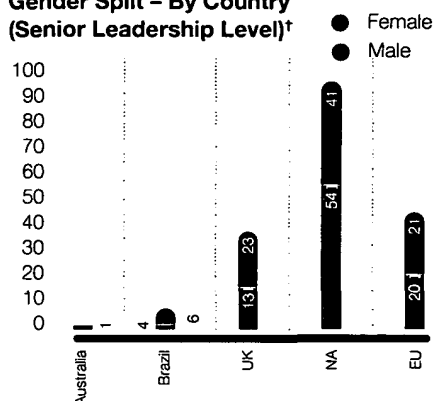
We also spent a day of the training focused on dealing with mental health issues in the workplace. Given the impact of COVID-19 on our face-to-face training options, we are now in the process of finding a digital delivery solution for the remainder of the programme during 2020. We plan to roll out similar management training across our other territories during the 2020/2021 financial year.

* Advisory, Conciliation and Arbitration Service

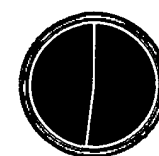
Gender Split – By Country (Leadership Level)*



Gender Split – By Country (Senior Leadership Level)†



Gender Split Across Group



* Leader means managing a small to mid-size team.

† Senior Leader means Senior Executive Team and the leadership level immediately below.

Safe Working Practices



Tony Griffin is the nominated Director responsible for health, safety and environmental matters. The Group attaches great importance to the health and safety of its employees. Management are responsible for, and committed to, the maintenance, monitoring and promotion of a policy of health and safety at work to nurture the care and wellbeing of our employees, contractors and on-site visitors.

During the year, we have promoted the Manufacturing Health and Safety Manager, Catherine Dent, to the post of Group HSE Director. She has the remit of standardising our procedures and working so that high standards of health and safety are maintained.

Due to the nature of our Manufacturing employees' roles, we have identified these as our higher risk employees with regards to health and safety. Health and Safety is a critical part of our Manufacturing business and we aim to always put safety first to prevent injury and harm to everyone working on behalf of Dechra. Everyone has the right to work safely, whatever their role, and it is our vision to make our business an environment where no one gets hurt. To develop further a strong culture of health and safety within this employee group, the Occupational Health and Safety Policy for Manufacturing and Supply was launched.

The Policy states our commitment to safeguarding the Health and Safety of all employees, contractors and visitors and also describes our Health and Safety Principles. These clear statements are directly aligned to the Dechra Values and summarise our shared beliefs about the importance of Health and Safety within our business:

Dedication: We will never look away and always step in if we see someone in danger.

Enjoyment: Everyone has the right to work in safe and healthy conditions.

Courage: Everyone is empowered to stop any process or work that they feel is unsafe.

Honesty: No activity is so urgent or important that it cannot be done safely.

Relationships: Health and Safety is everyone's responsibility.

Ambition: We believe that work related injuries and ill health are preventable.

This Policy was sponsored by the Group Manufacturing & Supply Director and launched with a Line Manager led cascade to all employees. The Policy will be further promoted by each Site Director throughout the coming year.

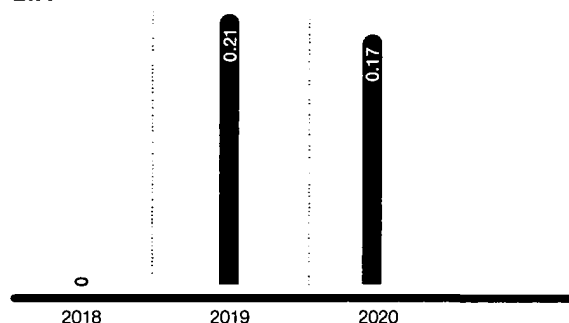
To provide clear governance for health and safety across DPM&S, the Health, Safety and Environmental (HSE) Steering Committee was formed. Chaired by the Group Manufacturing & Supply Director and attended by all Manufacturing Site Directors and subject matter experts, this Committee aims to establish clear health and safety standards across the Group and monitor risks to drive the continual improvement of our health and safety performance. This Committee meets bi-monthly and reviews performance, key risks, safety alerts and also works to support the implementation of enabling systems. One of the key decisions in the current year was to support the implementation of a HSE software system to centralise HSE reporting. This software tool will open up opportunities to report accidents, near misses and hazards to all employees using a simple reporting portal and will provide greater insight into the health and safety culture across the sites. This will help to direct future investment in infrastructure, standards and training to achieve zero harm across our Manufacturing and Supply business.

We are also proud to report that during the current year using the existing reporting framework, our employees continued to engage proactively with our Health and Safety improvement programme and reported 1,149 hazards versus 558 for the previous year. Each of these hazards represents an unsafe condition, which if left unchallenged could potentially cause an accident or incident. Our employees have proactively sought out opportunities to make our workplaces safer and we have fully supported them in reducing any risks. In recognition of a 'Positive Contribution to Safety' a number of our sites have implemented schemes to recognise employees and/or teams for their actions to make the workplace safer for all colleagues. We will continue to focus on proactive safety measures and will encourage everyone across the business to bring our Safety Principles to life and step in if they see unsafe conditions or actions.

LTA

For a number of years the Group has reported Lost Time Accident Frequency Rate (LTAFR) as a non-financial key performance indicator (see page 36). A LTA is any absence or the inability of employees to conduct their full range of normal working activities for a period of more than three working days after the day when the incident occurred. Any acquisitions during the year are included from the first full month that they become part of the Dechra Group. We have maintained a rigorous focus on health and safety. Over the course of the last 12 months the LTAFR has reduced from 0.21 to 0.17. The number of incidents has remained the same at six. Four incidents occurred in our manufacturing facilities and two in the sales and marketing organisations. There were no fatalities (employees or contractors). Two of the manufacturing facilities, Bladel and Melbourne, have now had over 24 months without an LTA and one of the manufacturing facilities, Zagreb, has had over 12 months without an LTA.

LTA



All accidents and incidents are investigated by Line Managers with the cooperation of safety representatives or other employees who are aligned to an area. When an accident occurs, each site conducts an investigation which aims to identify the root cause of the incident including any workplace hazards, system or behavioural errors. Corrective and preventative actions are then implemented. For all LTAs and high potential hazards or high potential near miss incidents, a safety alert is issued to share any learnings and enable preventative actions to be implemented quickly across all sites.

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

Corporate Social Responsibility continued

Our Environment



43%

waste incineration
with energy recovery

29.6%

energy used by
Zagreb by solar

We recognise the importance of good environmental practices. We are committed to minimising the impact of our operations on the environment by adopting responsible and sustainable environmental practices and complying with applicable environmental legislation. Our key focus areas are:

- **Waste:** prudent use of all natural resources, minimising waste in all activities, and the appropriate disposal of waste;
- **Energy:** optimising the energy we use; and improving energy effectiveness through initiatives on transport and reducing our greenhouse gas emissions; and
- **Sustainable raw materials:** to use sustainable raw materials in our nutrition range wherever practicable.

During the financial year we have upgraded our carbon emission software, so in addition to energy usage, the impacts from waste generation, water use, effluent disposal and refrigerant gas losses are also captured from locations where this is likely to be material. The sites that have a material impact are our manufacturing and logistics facilities.

Waste

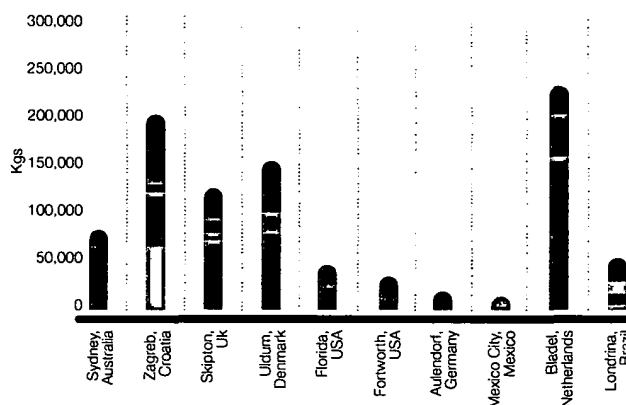


We are committed to the prudent use of all natural resources and the minimisation of waste in all activities from the specification of incoming raw materials, the use of materials in production activities and packaging, and the distribution of products into the supply chain. Where waste is unavoidably created we will manage its disposal in the most appropriate manner giving full consideration to environmental issues.

One of the most important impact areas for Manufacturing and Supply is waste generation, the management of which must be carefully controlled so that any hazardous substances or contaminated materials are disposed of correctly. In the 2020 financial year 21% of all our waste was classified as hazardous.

Our ultimate aim is to be zero to landfill and to achieve this target all of our sites are encouraged to increase reuse, recovery, or recycling of waste (where locally available).

Total Waste – Fate of Waste



Reused – materials or components directly reused

Recycling – materials recycling

Recovery – solvent recovery

Recovery – reclaiming components (acids/bases/metals)

Recovery – incineration with energy recovery

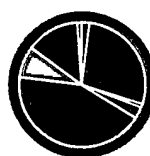
Recovery – compositing/anaerobic digestion

Landfill

Disposed – incineration (no energy recovery)

Waste is reported according to the EU Waste Directive categorisation system, including the definitions for the environmental fate of the waste. The following diagram shows the waste disposal method for the total waste volume generated across Dechra Manufacturing and Supply sites in the 2020 financial year:

Total Waste – Waste Disposal Method



Reused – materials or components directly reused	2%
Recycling – materials recycling	28%
Recovery – solvent recovery	1%
Recovery – reclaiming components (acids/bases/metals)	3%
Recovery – incineration with energy recovery	43%
Recovery – compositing/anaerobic digestion	8%
Landfill	14%
Disposed – incineration (no energy recovery)	1%

Reduction in Packaging Materials and Plastics

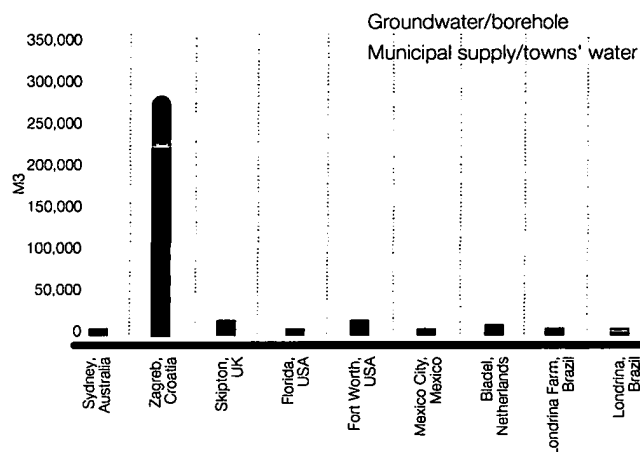
The Dechra Service Center in Uldum (DSC) has taken steps to be as environmentally friendly as possible by using 100% recycled paper for stuffing in shippers. All cardboard used for packing is made from 70% to 90% recycled material and all the cardboard boxes for the nutrition range are made from Forest Stewardship Council (FSC) material. In the rare situations where air pillows are required, these are made from eco-

friendly plastic material that is biodegradable. The distribution centre in Auldendorf, Germany, uses old newspapers as fillers in packaging. We are in the process of developing our sustainable packaging strategy and have established a taskforce to look at this. We hope to be able to report further in our report next year about their recommendations and actions.

Water

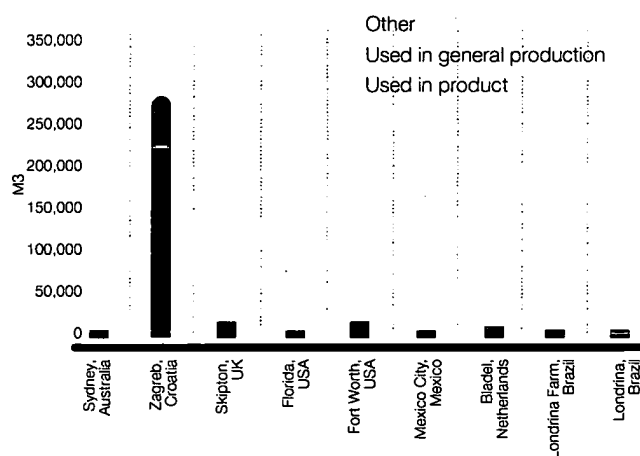
This is the first year we have collated data on our water consumption at our manufacturing sites. The sites aim to use water responsibly so that usage does not negatively affect the communities where they operate, by diminishing the supplies of clean water or degrading the quality of that water. Water consumption is low in comparison with other manufacturing sectors. Water is used from two sources: the local towns' water supply; and abstracted from borehole (local aquifer). Both the facilities in Zagreb and Brazil abstract water under a licence.

Water Consumption



Water is used in products, for cleaning and general production, and for cooling equipment and in processes.

Water Usage



Any contaminated water generated throughout the production process is disposed of as process effluent. Any waste water with the potential to adversely impact the environment is appropriately managed, controlled and treated prior to release. For Dechra Manufacturing sites, this includes all water used for cleaning purposes. In accordance with GMP requirements, to prevent cross contamination and to enable product reconciliation, used process equipment is generally drained, vacuumed or wiped clean prior to being washed. This reduces contamination washed to the effluent stream.

At the Zagreb site, large quantities of water are used for process cooling. Although this is a large quantity of water, this process is used instead of refrigerated cooling systems. At this site there is an on-site effluent treatment plant where settlement and pH correction occurs prior to discharge to the public sewer. The water used for cooling is returned to the environment warmer but clean.



Energy

Greenhouse Gas Emissions

In order to determine our carbon emissions, we use the GHG Protocol Corporate Accounting and Reporting Standard and we report on emissions arising from those sources over which we have operational control. Any acquisitions during the year are included from the first full month that they become part of the Dechra Group. The disclosures below encompass:

Scope 1: includes emissions from combustion of fuel and operation of facilities (excluding combustion from company cars);

Scope 2: includes emissions from purchased electricity, heat, steam and cooling; and

Scope 3: includes emissions from vehicles and from purchased electricity (which are not included in Scope 2) and, in the case of the 2020, financial year waste.

	1 July 2019 to 30 June 2020	% relates to UK	1 July 2018 to 30 June 2019	1 July 2017 to 30 June 2018
Scope 1 (tonnes)	6,403	6.3%	5,521	3,823
Scope 2 (tonnes)	4,989	9.8%	3,712	3,628
Scope 3 (tonnes)	1,962	6.1%	2,149	1,659
Total Carbon Footprint (tonnes of CO ₂ e)	13,354		11,382	9,110
Intensity Ratio (tonnes of CO ₂ e per £m)	25.9		23.6	22.4

Corporate Social Responsibility continued

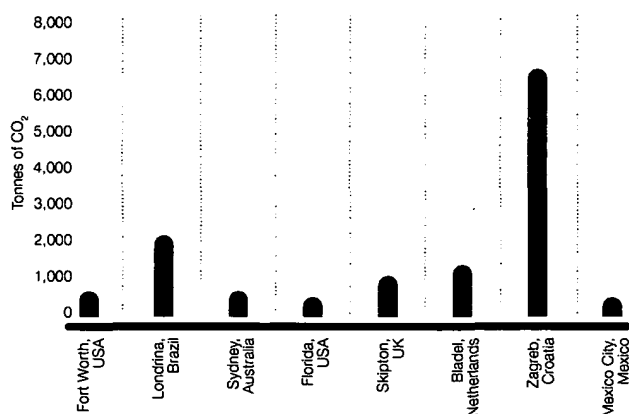
Emissions by Operation



Manufacturing
Office
Warehouse

Manufacturing

Emissions by Site (excludes mileage)



Our Manufacturing is the main contributor to our carbon footprint, and in particular the main contributors to Scope 1 are:

- Zagreb, due to the production of the nutrition supplement that is manufactured at Genera. 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. Additionally, during the financial year we have transferred some of the production volumes of liquids and solids to this site. The higher production volumes in both of these as well as Vaccines and Disinfectants, has resulted in the site operating two shifts. We have, also, installed new energy capacities in renovated facilities and laboratories such as new equipment, additional HVAC (heating,

ventilation and air conditioning system) and cooling systems. All HVAC and cooling systems in production, laboratories and warehouses are now working 24 hours/365 days due to GMP requirements for temperature and humidity control.

- Londrina, due to the use refrigerated gas. A total of 307.1 kgs of gas were lost to the atmosphere across the Group which has a carbon equivalent of 903 tonnes, of which 99% was generated from the Londrina site. This is a 47% reduction from the previous year. Equipment containing refrigerant gases is used to control the temperature of the working environment and is also necessary for freeze drying and general process cooling applications. The site is continually reviewing their strategy to manage equipment containing refrigerant gases, including equipment management to prevent leakages and switching to refrigerant gases that have a reduced environmental impact.

Offices

Offices include our sales representatives and Scope 3 (which includes vehicle emissions) account for 1,159 tonnes of the 1,221 tonnes total. The number of electric vehicles within our fleet is increasing year on year.

Warehousing

Our warehousing facilities contribute 650 tonnes of carbon and 57% of this is in relation to the fuel used in the buildings. Our main facility in Uldum, Denmark is looking at alternatives to fossil fuel, which have a lower environmental impact and other energy improvements.

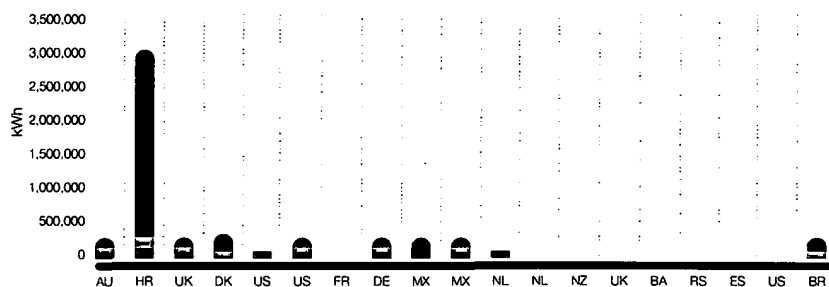
Kilowatt-Hour (kWh)

The kWh figures in the table below are the quantities of energy from activities for which the Group is responsible worldwide and the annual quantity of energy consumed resulting from the purchase of electricity, heat, steam or cooling and vehicle fuel by the Group for its own use and arising from those sources over which we have operational control.

	1 July 2019 to 30 June 2020	% relates to energy consumed in UK
Scope 1	31,454,319	6.7%
Scope 2	16,180,991	11.5%
Scope 3	8,372,040	6.0%
Total kWh	56,007,350	8.0%

The principal measures that are been taken to improve the Group's energy efficiency are described within this section of the CSR report and include the use of sustainable energy, improving energy effectiveness through transport initiatives, reviewing the strategy to manage equipment containing refrigerant gases and continuing with the policy of replacing all non-LED lighting.

kWh used – All Sites



Steam/heat
Other petroleum gas
Natural gas
Liquid petroleum gas
Generated electricity on site
Gas oil
Electricity
Diesel

Sustainable Energy

Dechra has the largest solar panel installation of its type in Croatia, and it has been operational since 28 June 2019. The solar panels have generated 29.6% of the energy used at the site.

	Total
HEP (kWh)	5,366,447
Solar power plant (kWh)	2,254,633
Total	7,621,080
% of solar	29.58%

Improve energy effectiveness through transport initiatives

The transportation of goods is the largest activity for the Dechra Service Center (DSC) in Uldum, Denmark. They handled 39,067 orders in the 2020 financial year, an increase of 5.9%, to customers worldwide. Although the cost of transport is the predominant factor for choice of transportation, DSC has reviewed the method of transportation to find

a form of transportation with the lowest carbon footprint. The majority of the pharmaceutical products received by DSC are supplied from our manufacturing sites in Bladel, the Netherlands and Skipton, the UK. The products from Bladel are transported by road, whereas the products from the UK are shipped by sea and road. All road transport is only to be made with companies who can guarantee that the vehicles used conform to the Euro6 standard or higher. All sea transport agreements are with Shipping Conference companies, which requires high standards for shipping.

	2020	2019	2018
Shipments	39,067	36,905	30,409
Total Weight (GRT)	19,304,216	19,399,930	16,665,247
CO ₂ Outlet (kg)	1,684,872	1,670,037	1,393,046
CO ₂ per kg	11.5	11.6	12.2

Taskforce for Climate-related Financial Disclosure (TCFD)

The TCFD was established to help identify the information needed by investors, lenders, and insurance underwriters to assess and price climate-related risks and opportunities appropriately. The Taskforce structured its recommendations around four thematic areas that represent core elements of how organisations operate: governance; strategy; risk management; and metrics and targets.

Recommendation	Dechra Approach	Further Information
Governance Disclose the organisation's governance around climate-related risks and opportunities.	The Board is accountable for approving our CSR strategy and overseeing the delivery of our climate-related objectives. Our Senior Executive Team (SET) are responsible for delivering on these objectives within their functional areas and business units. The Board and the SET are supported by a cross-functional CSR Committee who work with them to define our CSR strategy, and set objectives and targets which are aligned with the United Nations Sustainable Development Goals.	
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	Our environment strategy and objectives are described in our Corporate Social Responsibility Report. Our policy is that we are committed to minimising the impact of our operations on the environment by adopting responsible environmental practices and complying with applicable environmental legislation.	Corporate Social Responsibility (pages 58 to 61)
Risk Management Disclose how the organisation identifies, assesses, and manages climate-related risks.	We have assessed the impact of climate change as part of our normal risk management process and concluded that there is likely to be some financial risks which would need to be managed, but none that would materially impact our business model. This assessment is consistent with the Sustainability Accounting Standards Board's (SASB) Materiality Map which indicates that the issue is not likely to be material for the pharmaceutical sector.	How the Business Manages Risk (pages 70 to 72) Emerging Risks (page 76)
Metrics and Targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	Our environmental metrics and targets are described in our Corporate Social Responsibility Report. The key targets are: <ul style="list-style-type: none"> • minimise waste disposal in our manufacturing sites; • reduce carbon emissions by optimising our energy usage and an eco-friendly, cost-effective distribution system; • reduce packaging materials and pallets; and • use sustainable raw materials in our nutrition range. 	Corporate Social Responsibility (pages 58 to 61)

Corporate Social Responsibility continued

Sustainable Raw Materials in Our Nutrition Range



Recipes and Ingredients

All of the krill, fish oil and fish meal used in the dry SPECIFIC diets are certified by either Marine Stewardship Council (MSC), IFFO RS Standard or Friends of the Sea. We regularly review our top ten ingredients, assessing the risk of scarcity and putting in place plans if we feel there is a growing risk. We have recently started to use algae, in our new sardine cat food, this ingredient is a rich source of omega-3 and has a number of benefits:

- commercial algae production takes place on shore, so has no impact on the marine environment;
- it uses a highly controlled process that takes very little land and does not use valuable drinking water or arable soil and,
- directly using algae as an ingredient helps preserve fish stocks.

As well as ensuring the provenance of our ingredients we are also interested in how these ingredients are produced. The sardine used in our new cat food are caught, in MSC certified fisheries, using a low impact ring netting system. With trawl netting the nets are towed through the water. With ring netting, a net is used to encircle a shoal of fish forming a deep curtain of netting suspended vertically through the water, the net is then drawn in. There are a number of advantages to ring netting, and they are:

- by-catch is reduced because if the wrong species are in the net, the whole catch can be released unharmed;
- less seabed impact as the net does not come into contact with the seabed; and
- lower fuel consumption as the ring net is not towed through the water and the vessels used are small inshore vessels.

Packaging

In 2018 we changed the packaging of our cat food, reducing bag height, using thinner bags and introducing a flat bottom. This reduced plastic use by 3,000kgs per year. In 2020, we have made the same changes to our range of dog food, which is projected to save a further 18,000kgs of plastic per year. All of our cardboard cartons are now FSC certified.

In 2020, we are launching a new range of organic diets including dry foods in recyclable bags. Virtually no dry pet foods are currently in recyclable packaging. The reason is that dry pet food bags have to provide both excellent barrier properties and strength to handle the supply chains, and up to now the only way to achieve this was to use bags made from two or three layers of different types of plastic. Because they are a mix of different types of plastic, they are generally unsuitable for recycling.

Our new organic dry food bags are made from layers of the same type of plastic but with a gas barrier between the layers. This gives packaging that is both lighter and stronger than conventional bags but because it is a single type of plastic, it can be recycled where collection systems allow.

The organic diets are the start and we are committed to having all of our Specific diets in recyclable packaging by 2023.

Our Business



37

Product Development Projects

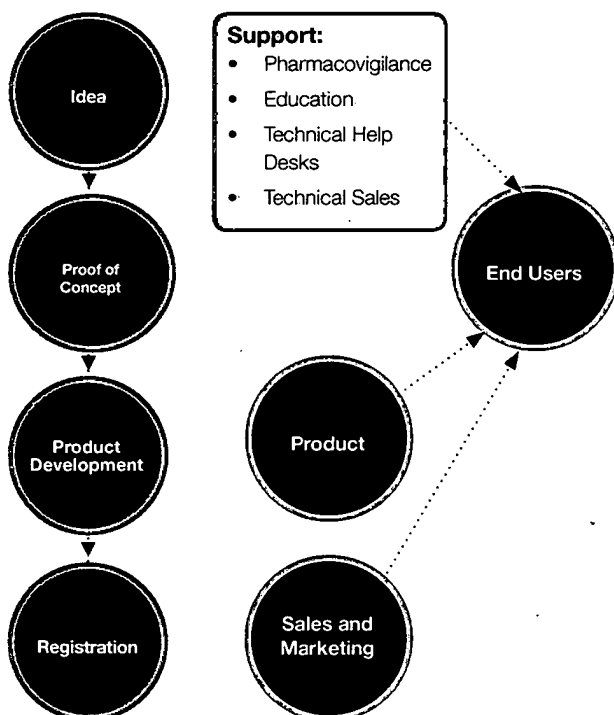
68,000

Academy Users

Our key focus areas are:

- Life of our Products: the development and promotion of products to improve animal welfare;
- Veterinary Professionals: maintaining and improving the knowledge and skills of veterinarians who prescribe and use our products; and
- Ethics: acting honestly and with integrity.

Life of our Products



Product Development

It is our mission to develop products to improve animal welfare. In line with that commitment, we carefully consider the responsible use and humane treatment of animals in all of our required studies. When we are required to conduct studies to achieve product registrations, we minimise the number of animals to achieve the necessary outcomes. Whenever possible, we will use information that can be derived from existing publications in an effort to limit the number of studies needed.

The scientific purpose of involving animals in the development of our products is reviewed and approved by Regulatory Agencies. For each individual study, an Animal Welfare Committee approves the protocol.

We are committed to the following principles:

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

The Animal Welfare Committee ensures that a minimal number of animals are used and that their treatment is humane, and Dechra inspects all facilities which perform testing to confirm proper care and treatment of animals is evident. Additionally, a full review of the study design will be approved by their Animal Welfare Committee for clinical studies. In all instances only animals with the disease the product is intended to treat will be used and owner consent for the trial is obtained.

Pharmacovigilance

All employees, except production and logistics operatives, receive pharmacovigilance training within one month of joining Dechra. This is then verified by the pharmacovigilance e-learning module on Delta. These employees undertake an annual pharmacovigilance refresher training. The pharmacovigilance training outlines the procedure that should be followed by all Dechra personnel if they are informed of a product complaint.

Any time that Dechra receives a report of an adverse event occurring after the administration of one of its products, the Company treats the report seriously and it is Dechra's obligation to review the case to determine whether its product may have caused or contributed to the adverse event. All suspect adverse reactions are reported to the appropriate regulatory authorities.

→ Read more about our **Product Development** on pages 40 to 43

Corporate Social Responsibility continued

Promotion of Products

To maintain the trust of veterinarians and the public, it is important that we provide accurate, fair and objective information on our products and medicines to support their safe and effective use. We do not make false or misleading claims about our products.

We advertise and promote our products fairly using promotional materials which contain balanced, accurate and truthful information. We only promote based on the information included on the Summary of Product Characteristics (SPC)/Product Insert which is a document that is approved by the regulators as part of the marketing authorisation of each medicine. We are members of the industry associations in the majority of countries where we have our own sales teams, and follow the industry association's marketing and promotional guidelines in these countries. All our promotional material is approved internally by an appropriately qualified regulatory manager, technical product manager or veterinarian. In addition, we train all customer-facing employees so that they have sufficient product and disease knowledge to enable them to present information on our products accurately and responsibly. We only promote our products to veterinary professionals, using promotional materials approved by authorised persons independent of the sales force.

Promotional compliance is monitored by our country managers and regional sales managers and the internal audit team also conduct a regular review of compliance processes, and corrective actions are taken to address any issues identified.

The volume and value of payments to animal health professionals is very modest compared to payments to healthcare professionals by the human pharmaceutical industry. We only make modest fee-for-service payments to key opinion leaders who help us develop and deliver educational materials events and to veterinarians who we use to conduct clinical trials. There are currently no regulatory or industry requirements to publicly disclose promotional violations or payments to healthcare professionals.

Our Products

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

We have developed a strong position in providing specialist and clinically necessary novel CAP products, especially in internal medicine and critical care products such as anaesthesia and analgesia, where we have a wide range providing the veterinarian with an optimal solution for most cases.

Our FAP products are positioned to match current best practice prescribing habits and to meet the growing awareness for the need for better animal welfare standards.

Veterinary Professionals



Our relationship with veterinarians is key to our business and therefore, we provided added value services in the form of educational programmes and technical support to maintain and improve the knowledge and skills of veterinarians who prescribe and use our products. In addition, we provide scholarships to the next generation of veterinarians.

Education

We deliver education through many channels, including conferences and our online digital e-learning environment, the Dechra Academy.

Academy

During the year, the Dechra Academy has received substantial effort and investment with the launch of a new system in February 2020.

The benefits of the new system include:

- A.I. Powered, the system can recommend similar courses based upon what the user has viewed;
- new promotional capabilities which allow us to highlight new courses and products for our customers; and
- multiple domains which allow us to have a global site and create bespoke versions for each of our key markets.

Using modern design and up-to-date training methodologies we are growing our position as one of the best educational resources for veterinary professionals. The Dechra Academy is a key differentiator for Dechra and our most important digital asset.

Noticeable achievements over the last 12 months are:

- courses available in 18 languages (2019: 16 languages)
- 68,000 registered users (2019: 52,000 registered users)
- 334 courses (2019: 168 courses)
- 2,200 average users per month (2019: 1,060 average users)
- four local market domains (2019: two local market domains)
- promotion and demonstration at two European Congresses

In the EU alone, we held 200 Dechra Academy Live Events with over 7,000 veterinarians attending and 60 Dechra Academy Webinars with over 16,000 veterinarians attending.

Our focus for the next 12 months will be the continued roll out of the local domains, supported by local Marketing Teams, to increase usage of The Academy across the globe. In addition, we are in the process of developing a mobile app to increase our usability and appeal to a younger audience. These will also include a variety of new content for our customers.

CPD Events

During the financial year, we held 2,000 Continuing Professional Development (CPD) sessions in the EU with over 10,000 veterinarians attending and 323 CPD events in North America with 8,023 attendees. Our International business:

- held a two day distributor meeting in Zagreb where training was provided to 39 participants;
- delivered education via seminars to a further 275 veterinarians; and
- held the equivalent of 249 distributor training days.

Technical Support

With the wide range of products we offer which includes those that treat complex and less frequently occurring disorders such as Cushing's and Addison's, the provision of a high quality veterinary technical support is a service that the veterinarians truly value.

Veterinarians across the globe can email technical services or call the telephone support lines provided in all the countries where Dechra operates. Veterinarians call Dechra to discuss:

- diagnosis;
- treatment options; and
- the ongoing monitoring and management of conditions, particularly those that are lifelong.

Our aim is to help veterinarians optimise the case management of each individual patient, and some veterinarians will call a number of times for support and advice on more complex cases.

In our smaller markets we will have a veterinarian responsible for providing veterinary support. This compares to our larger markets where we have more veterinarians that will collaborate across all sectors of the industry. The UK has one of our largest teams, and in the last financial year this team handled around 8,000 customer enquiries, 52% of which were related to our endocrine treatments *Vetoryl* and *Zycortal*. In 2020, the US Veterinary Technical Support team provided technical support for over 9,000 new cases, with close to 40% specific to *Vetoryl* and *Zycortal* products. In addition, these larger markets will also have field based veterinarians providing technical support and carrying out 'lunch and learns'.

Italy

Our team in Italy have taken the provision of veterinary technical support one step further. They have secured the services of the University of Bologna in order to offer a comprehensive service for veterinarians with questions about endocrinology and anaesthesia – two of our key therapy areas. This service is available to all veterinarians in Italy and is promoted through the sales team and on social media.

Over the financial year there were nearly 500 contacts from veterinarians, 75% of them by telephone. As with the UK, a large number of these calls concerned Cushing's and Addison's, with the majority looking for help with treatment and monitoring of these cases.

"This is a very important service for our customers", says Riccardo Data, the Country Manager for Dechra Italy. "Not only are we helping veterinarians to deal with issues that they are facing on a daily basis, we are also working with the University on interrogating the questions asked and the specific areas that veterinarians are seeking advice on. We can then develop resources that will help support these veterinarians in the future."

As our technical veterinarians have an in-depth knowledge of our products and the diseases they treat they are often called upon to provide education for veterinarians, recent graduates and veterinary students. Their expertise is also put to good use in supporting Dechra's own sales and marketing teams and our distribution partners, enabling all sales teams to be well trained and our marketing messages to be relevant and technically accurate.

We have put a lot of effort into providing a good level of support for our customers and this is reflected in the fact that our UK Veterinary Technical Services team has been ranked by our customers as the 'best in class' technical helpline for four out of the last five years.*

* CM Research Syndicated Sales Rep Survey (over years 2016–2020).

Corporate Social Responsibility continued

Ethics



We are committed to acting responsibly and with integrity. We comply with the laws and regulations and respect the traditions and cultures of the countries in which we operate.

Honesty and Integrity

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

During the year, we have reviewed all of our policies which underpin our internal Code of Conduct and compiled one page summaries which have been used as a basis for an internal training programme. During the forthcoming year, the training programme will be translated into nine languages and it will be rolled out to all of our employees. Our employees are encouraged to report behaviours that are contrary to our Code of Conduct via our How to Raise a Concern Procedure.

Anti-Bribery and Anti-Corruption

As Dechra continues to launch new products in new markets and enter into collaborative partnerships across the world, Anti-Bribery and Anti-Corruption (ABC) risk continues to be a key focus.

It is our policy to conduct all business in an honest and ethical manner. We take a zero tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate, and to implement and enforce effective systems to counter bribery and corruption. The Audit Committee is kept regularly informed of the ABC programme.

All employees are required to comply with the Dechra ABC Policy, which was updated during the 2020 financial year. The ABC Policy clearly defines what constitutes bribery and corruption, outlining prohibited activities and providing guidance on what activities are allowed around the world. A new e-learning course for employees will be rolled out during the forthcoming year across the Group as compulsory training, to be repeated annually. Face-to-face bespoke training has been delivered to the Dechra Veterinary Products International and the Product Development and Regulatory Affairs teams, designed to specifically address areas of risk in the markets in which they operate.

We have also reviewed and updated our customer and supplier onboarding programme during this period, rolling it out across the Group as part of a dedicated training and monitoring exercise. We utilise ABC and Sanctions screening software which assesses Dechra's third party network on a continuous basis. Any new third parties are assessed for ABC risk and are required to complete a due diligence exercise where necessary. There is also an ongoing review of existing third parties at regular intervals (the frequency of which is determined by their ABC risk assessment level). Equally, ABC due diligence procedures are an integral part of all acquisition activity.

Human Rights

Dechra is committed to upholding and respecting human rights both within our business and from our suppliers. During the year, the Board approved a Human Rights Policy, a copy of which can be found on our website. The following sets out our Human Rights principles which are all embedded into our Code of Conduct for employees and our Third Party Code of Conduct for our suppliers and customers.

We do not use forced, bonded or indentured labour or involuntary prison labour or take part in human trafficking. We have a zero-tolerance approach to modern slavery and we are committed to acting ethically and with integrity in all our business dealings and relationships. We are also committed to implementing and enforcing effective systems and controls to prevent modern slavery from taking place anywhere in our own business or any of our supply chains. Our Modern Slavery Statement can be found at www.dechra.com.

- We do not use child labour. We comply with international standards on the minimum age for employment. The minimum age for employment is 16 years of age. However, if the local minimum age law stipulates a higher age for work or mandatory schooling, then the higher age will apply.
- We treat people fairly and do not tolerate bullying and harassment. We do not discriminate for reasons such as age, gender, sexual orientation, marital status, race, colour, ethnicity, disability, religion, political affiliation or union membership.
- We provide a workplace free of harsh and inhumane treatment, including any sexual harassment, sexual abuse, corporal punishment, mental or physical coercion or verbal abuse of workers, and no threat of any such treatment.
- We recruit and promote people on the basis of their personal ability, contribution and potential. We are committed to promoting, supporting and maintaining a culture of fairness, respect and equal opportunity for all.
- We are committed to fair employment practices and comply with national legal requirements regarding wages, including minimum wages, overtime hours and mandated benefits, and working hours.
- We provide a safe working environment for those who work for us or with us. We reinforce good safety management practices and maintain awareness of safe ways of working.

Our Community



935 **£32.3k** **£247.2k**

Community Hours

Cash Donations

Product Donations

We believe that it is important to give back to the communities in which we live and operate. Our community ethos is aligned with our business Purpose and Values, in particular, our Relationships and Enjoyment Values. Our Community pillar focuses on:

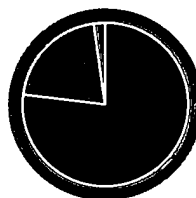
- Community Activities
- Community Employment
- Community Donations

Community Activities

We encourage our employees to engage in community activities, in particular, volunteering in the fields of animal welfare, human service and environmental stewardship. There is a particular focus on animal welfare driven by the passion of our employees. We have committed to giving our employees one day per year in the community. A lot of our community activities this year have been postponed due to the social distancing restrictions imposed by COVID-19. Fortunately, our employees in North America held six events earlier in the year, volunteering a total of 935 hours. Two of the events were held during North America's annual sales meeting, where over 100 volunteers arrived a day early for the week long meeting to give back to the local community that would host them. Four of the six events were focused on animal welfare, primarily supporting animal shelters, while one was a large-scale beach clean-up preserving our environment, and another serving local grade school children interested in science. In preparation for expanding volunteerism globally at Dechra, a Volunteer Service Tool Kit was developed and is now available to all Dechra employees for the purpose of encouraging and instructing how to properly engage their community and organise a volunteer event.

We also support professional staff volunteering time in their local community. Andrea Brownstein, US Territory Sales Manager volunteered with the National Disaster Medical System (NDMS), deployed earlier this year to help COVID-19 positive Wuhan evacuees at the start of the pandemic.

2020 Financial Year Community Volunteer Hours



- Animal Welfare **77%**
- Environment **21%**
- Human Service **2%**

Community Employment

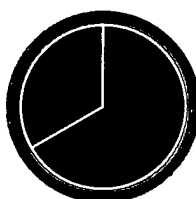
We recognise that the Group has a responsibility to its stakeholders and we strive to contribute to the social and economic welfare of the local communities in which we operate. We recognise that by taking voluntary action in this area, it is helping to protect and develop our business:

- Offer employment opportunities to all sectors of the community through non-discriminatory policies and promoting opportunities to disadvantaged and vulnerable groups; and
- Support local initiatives for the development and education of young people in the areas we serve, such as Dechra product development staff located in the Maine office educating and exciting our next generation of scientists during the annual Bioscience Day for Maine grade school students.

Community Donations

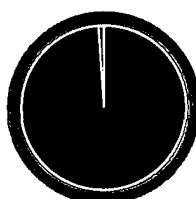
For the last 9 years we have operated a Group Donations scheme, whereby we encourage all employees to nominate a charity or non-commercial organisation for a charitable donation. This year we donated to 15 charities each receiving £2,000 each. In addition to the annual Group Donations, each business unit has the discretion to allocate funds and/or products to local community charities and/or animal welfare charities. The majority of product donations are short dated product which otherwise would have had to be destroyed.

Group Donations



- Animal **£20,000**
- Human **£10,000**

Business Unit Donations by Type



- Product **£247,159**
- Cash **£2,328**

Corporate Social Responsibility continued

Bioscience Day



Growing a strong, sustainable bioscience community is fundamentally important to attracting talent. This involves developing a workforce for the future, and the first step in this process is often focused on exciting young students about science. To this end, the Bioscience Association of Maine (BioME) organises an annual event, Bioscience Day, which is all about engaging students and giving them insight into working in a science-based role. Two employees from the Dechra office in Maine, Roberto Garcia and Caryn Thompson, were delighted to join the fourth annual Bioscience Day as volunteers and to share their experiences with the eighth-grade students at Bioscience Day.

The event involved 24 schools and over 3,300 participants with 58 volunteers from 25 companies.

Caryn presented on measuring biodiversity and the children were given an exercise to simulate sampling forest birds and learnt how to assess species diversity via simple statistics, while Roberto gave an overview of the teamwork involved in developing veterinary drugs. He also gave the students an exercise which involved working in groups to create sample project plans and Gantt charts. He explained why he was eager to participate in the day:

"Today is an opportunity for me to give back to the community, and I think it's important to try and help the students figure out what they want to do as there are so many opportunities out there."

Roberto and Caryn will be attending the fifth annual Bioscience Day, and have already begun recruiting other Dechra volunteer scientists to join them. Whether the event is held in person or virtually, exciting the next generation with the importance of science to solve real world concerns is something Dechra employees are committed to.

Australian Wild Fires

In January 2020, the team at Dechra Australia supported efforts to help animals injured in the bushfires in New South Wales by donating antibiotics and pain medications to local veterinary clinics. The majority of the medications provided were used to treat wildlife, such as koalas and possums, brought to the clinics.

Tony Flint, NSW North Territory Manager, cited instances where companion animals belonging to people who had lost their homes had also been treated by medications donated by Dechra: "One story that was very touching came from Greencross Port Macquarie, who used some of the products received to treat burns to a dog whose owner had lost everything. He and his dog managed to escape from their burning house but his dog sustained burns to his feet. The owner was very touched when he learned that the clinic could treat his best friend at no cost."

Tony went on to describe the impact of what he had seen and heard over the last week whilst travelling around some of the worst affected areas: "Some of the stories I've heard have given me a real sense of the positive effect our support has had on people and animals in a time of great need. It puts a very human face to what we do."

Non-Financial Information Statement

We aim to comply with the Non-Financial Reporting requirement as detailed in Sections 414 CA and 414 CB of the UK Companies Act 2006. The table below sets out where you can find the non-financial matters within our Strategic Report that, taken together, comprises the Non-Financial Information Statement.

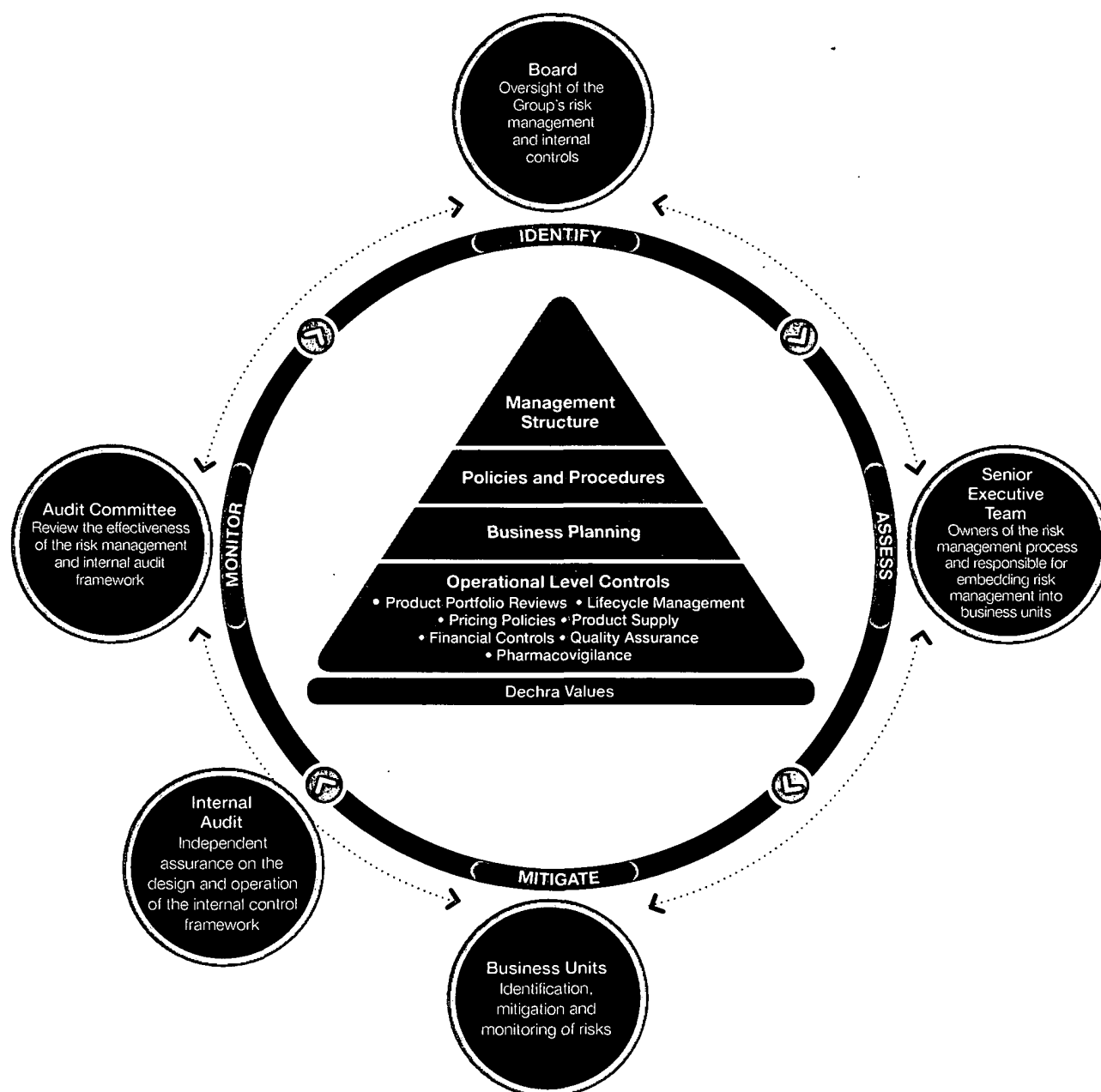
Reporting Requirement	Where to read more	Page number	Policies and Handbook
1 Environmental matters (including the impact of the Company's business on the environment)*	<ul style="list-style-type: none"> Corporate Social Responsibility: Our Environment Understanding our Key Risks 	58 to 62 73 to 76	<ul style="list-style-type: none"> Code of Conduct
2 Employees*	<ul style="list-style-type: none"> Creating Value for Our Stakeholders Chief Executive Officer's Statement Strategy in Action: People Corporate Social Responsibility: Our People Section 172 Statement Understanding our Key Risks 	17 22 to 25 36 52 to 57 46 and 47 73 to 76	<ul style="list-style-type: none"> Staff Handbook Dignity at Work Policy Health & Safety Policy How to Raise a Concern Handbook HR Policies
3 Social matters*	<ul style="list-style-type: none"> Creating Value for Our Stakeholders Corporate Social Responsibility: Our Community Section 172 Statement 	17 67 and 68 46 and 47	<ul style="list-style-type: none"> Volunteer Service Toolkits for Large and Small Events Donations Policy
4 Respect for human rights*	<ul style="list-style-type: none"> Corporate Social Responsibility: Our Business 	63 to 66	<ul style="list-style-type: none"> Human Rights Policy Modern Slavery Statement
5 Anti-Bribery and Anti-Corruption*	<ul style="list-style-type: none"> Section 172 Statement Corporate Social Responsibility: Our Business Audit, Risk and Internal Control 	46 and 47 66 107 and 109	<ul style="list-style-type: none"> Code of Conduct ABC Policy Third Party Code of Conduct How to Raise a Concern Handbook
6 Business Model	<ul style="list-style-type: none"> Our Business Model Creating Value for Our Stakeholders 	14 to 16 17	
7 Principal Risks in relation to (1) to (5)	<ul style="list-style-type: none"> How the Business Manages Risk Understanding our Key Risks 	70 to 72 73 to 76	
8 Relevant non-financial KPIs	<ul style="list-style-type: none"> Key Performance Indicators 	34 and 35	

* References to our policies, due diligence processes and information on how we are performing on various measures in these areas are contained throughout the Strategic Report.

How the Business Manages Risk

Effective risk management and control is key to the delivery of our business strategy and objectives.

Our risk management and control processes are designed to identify, assess, mitigate and monitor significant risks, and provide reasonable but not absolute assurance that the Group will be successful in delivering its objectives.



Risk Management Process

Our strategy informs the setting of objectives across the business and is widely communicated. Strategic risks and opportunities are identified as an integral part of the strategy setting process. Operational, financial, compliance and emerging risks are identified as an integral part of our functional planning and budget setting processes.

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

Our Senior Executive Team (SET) owns the risk management process and is responsible for managing specific Group risks. The SET members are also responsible for embedding sound risk management in strategy, planning, budgeting, performance management, and operational processes within their respective Operating Segments and business units.

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

SET members present their risks, controls and mitigation plans to the Board for review on a rolling programme throughout the year. The SET is responsible for conducting self-assessments of their risks and the effectiveness of their control processes. Where control weaknesses are identified, remedial action plans are developed, and these are included in the risk reports presented to the Board.

Internal Audit coordinates the risk reporting process and provides independent assurance on the internal control framework.

COVID-19

We have continued to operate our normal risk management and control processes throughout the COVID-19 pandemic, including a formal assessment of emerging risks, climate risk and the potential longer term impact of COVID-19 on the business.

The operational impact of COVID-19 on the business during the last quarter of the financial year and the actions we have taken in response are described in various parts of the Strategic and Governance Reports. Whilst the virus has had a significant impact on how we conduct our day-to-day activities, we have continued to operate successfully throughout the pandemic in all of our worldwide locations. Following record demand in March as veterinarians stocked up on essential medicines, trading softened in the last quarter, but we have seen demand recover in most markets as lockdown restrictions are eased.

We have disclosed COVID-19 as an emerging risk and have also considered its impact on the principal risk profile. Given the uncertainty about the potential lifecycle of the virus and the impact of future events we will continue to monitor and respond to further changes where needed.

Dechra Culture

The Dechra Values are the foundation of our entire business culture including our approach to risk management and control. The Board expects that these Values should drive the behaviours and actions of all employees. We encourage an open communication style where it is normal practice to escalate issues promptly so that appropriate action can be taken quickly to minimise any impact on the business.

Internal Control Framework

Our internal control framework is designed to ensure:

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

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

Management Structure

Our management structure has clearly defined reporting lines, accountabilities and authority levels. The Group is organised into business units. Each business unit is led by a SET member and has its own management team.

Policies and Procedures

Our key financial, legal and compliance policies that apply across the Group are:

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

Strategy and Business Planning

We have a five year strategic plan which is developed by the SET and endorsed by the Board annually. Business objectives and performance measures are defined annually, together with budgets and forecasts. Monthly business performance reviews are conducted at both Group and business unit levels.

Operational Controls

Our key operational control processes are as follows:

- **Product Pipeline Reviews:** We review our pipeline regularly to identify new product ideas and assess fit with our product portfolio, prioritise development projects, review whether products in development are progressing according to schedule, and assess the expected commercial return on new products.
- **Lifecycle Management:** We manage and monitor lifecycle management activities for our key products to meet evolving customer needs.
- **Pricing Policies:** We manage and monitor our national and European pricing policies to deliver equitable pricing for each customer group.
- **Product Supply:** We continue to develop our demand forecasting and supply planning processes, with monthly reviews of demand and production forecasts, inventory controls, and remediation plans for products that are out of supply.

How the Business Manages Risk continued

- **Quality Assurance:** Each of our manufacturing sites has 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 and product complaints related to the use of our products are reported and dealt with promptly.
- **Financial Controls:** Our controls are designed to prevent and detect financial misstatement or fraud and operate at three levels:
 - Entity Level Controls performed by senior managers at Group and business unit level;
 - Month end and year end procedures performed as part of our regular financial reporting and management processes; and
 - Transactional Level Controls operated on a day-to-day basis.

The key controls in place to manage our principal risks are described in further detail on pages 73 to 76.

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

Improvements in 2020

We have continued to strengthen and improve our governance and control processes and the following changes have been implemented:

- New governance and oversight processes to provide transparency of performance, decisions and actions across the manufacturing

and supply network;

- Recruitment of a new External Network Director and expansion of the external network team, including the appointment of a dedicated External Network Quality Director to improve our ability to manage the increased scale and complexity of our external supply network;
- Recruitment of a new Internal Network Director to strengthen the management of our internal manufacturing sites;
- We have continued to make improvements to our manufacturing, quality and supply processes, with additional investments in people and production facilities;
- Our financial control framework in Dechra Brazil has been completed; and
- Our Environmental, Social and Governance (ESG) strategy has been developed and a team to monitor its implementation has been established.

Plans for 2021

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

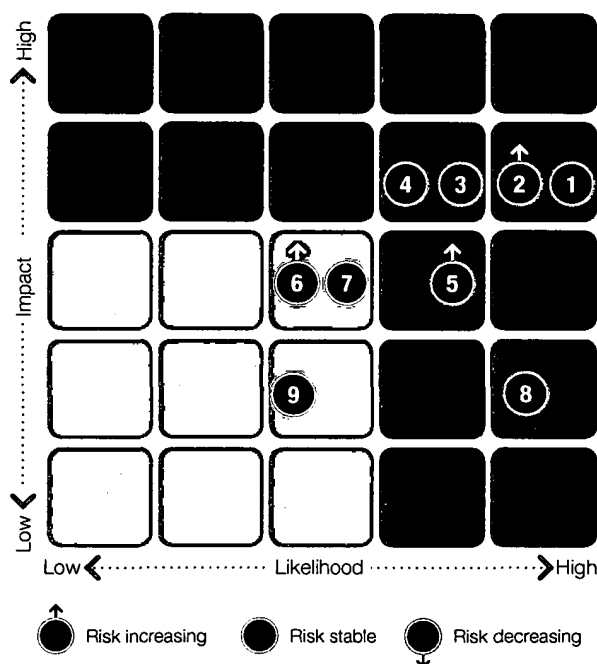
Our Manufacturing and Supply processes continue to be the primary focus area for 2021.

We also plan to make further improvements and enhancements to our financial control framework and our Group policies.

Principal Risks

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

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









Understanding Our Key Risks

Link to
Strategic
Growth
Driver and
Enabler

	Risk	Potential Impact	Control and Mitigating Actions	Trends
	<p>1 Market Risk:</p> <p>The growth of veterinary buying groups and corporate customers.</p> <p>We sell and promote primarily to veterinary practices and distribute our products through wholesaler and distributor networks in most markets.</p> <p>In a number of mature markets, veterinarians have established buying groups to consolidate their purchasing, and corporate customers are continuing to expand.</p>	<p>The growth of corporate customers and buying groups represents an opportunity to increase sales volumes and revenue but may result in reduced margins.</p>	<p>We manage and monitor our national and European pricing policies to deliver equitable pricing for each customer group.</p> <p>Our relationships with larger customers are managed by key account managers.</p> <p>Our marketing strategy is designed to support veterinarians in retaining customers by promoting the benefits of our product portfolio in our major therapeutic areas.</p>	→
 	<p>2 Competitor Risk:</p> <p>Competitor products launched against one of our leading brands (e.g. generics or a superior product profile).</p> <p>We depend on data exclusivity periods or patents to have exclusive marketing rights for some of our products.</p> <p>Although we maintain a broad portfolio of products, our unique products like <i>Vetoryl</i> and <i>Felimazole</i> have built a market which may be attractive to competitors.</p>	<p>Revenues and margins may be adversely affected should competitors launch a novel or generic product that competes with one of our unique products upon the expiry or early loss of patents.</p> <p>Costs may increase due to defensive marketing activity.</p>	<p>We focus on lifecycle management strategies for our key products such that they can fulfil evolving customer requirements.</p> <p>Product patents are monitored and defensive strategies are developed towards the end of the patent life or the data exclusivity period.</p> <p>We monitor market activity prior to competitor products being launched, and develop a marketing response strategy to mitigate competitor impact.</p>	<p>↑</p> <p>Increasing competition on a number of our key products</p>
	<p>3 Product Development and Launch Risk:</p> <p>Failure to deliver major products either due to pipeline delays or newly launched products not meeting revenue expectations.</p> <p>The development of pharmaceutical products is a complex, risky and lengthy process involving significant financial, R&D and other resources.</p> <p>Products that initially appear promising may be delayed or fail to meet expected clinical or commercial expectations or face delays in regulatory approval.</p> <p>It can also be difficult to predict whether newly launched products will meet commercial expectations.</p>	<p>A succession of clinical trial failures could adversely affect our ability to deliver shareholder expectations and could also damage our reputation and relationship with veterinarians.</p> <p>Our market position in key therapeutic areas could be affected, resulting in reduced revenues and profits.</p> <p>Where we are unable to recoup the costs incurred in developing and launching a product this would result in impairment of any intangible assets recognised.</p> <p>COVID-19 may cause some clinical trial delays due to challenges in recruiting patients.</p>	<p>Potential new development opportunities are assessed from a commercial, financial and scientific perspective by a multi-functional team to allow senior management to make decisions on which ones to progress.</p> <p>The pipeline is discussed regularly by senior management, including the Chief Executive Officer and Chief Financial Officer. Regular updates are also provided to the Board.</p> <p>Each development project is managed by project leaders who chair project team meetings.</p> <p>Before costly pivotal studies are initiated, smaller proof of concept pilot studies are conducted to assess the effects of the drug on target species and for the target indication.</p> <p>In respect of all new product launches a detailed marketing plan is established and progress against that plan is regularly monitored.</p> <p>The Group has a detailed market knowledge and retains close contact with customers through its management and sales teams which are trained to a high standard.</p>	→

Understanding Our Key Risks continued

Link to
Strategic
Growth
Driver and
Enabler

Enabler	Risk	Potential Impact	Control and Mitigating Actions	Trends
  	<p>4 Supply Chain Risk:</p> <p>Inability to maintain supply of key products due to manufacturing, quality or product supply problems in our own facilities or from third party suppliers.</p> <p>We rely on third parties for the supply of all raw materials for products that we manufacture in-house. We also purchase many of our finished products from third party manufacturers.</p>	<p>Raw material supply failures may cause:</p> <ul style="list-style-type: none"> increased product costs due to difficulties in obtaining scarce materials on commercially acceptable terms; product shortages due to manufacturing delays; or delays in clinical trials due to shortage of trial products. <p>Shortages in manufactured products and third party supply failures on finished products may result in lost sales.</p> <p>We have now addressed the majority of our in-house quality and supply challenges which contributed to an increased supply chain risk last year. However, the risk level has maintained because COVID-19 may impact our product supply due to:</p> <ul style="list-style-type: none"> unexpected fluctuations in demand; reduced output in manufacturing sites; challenges in securing raw materials; and increased product costs due to scarce supply. 	<p>We monitor the performance of our key suppliers and act promptly to source from alternative suppliers where potential issues are identified.</p> <p>The top ten Group products are regularly reviewed in order to identify the key suppliers of materials or finished products.</p> <p>A dedicated external network team who manage and support our CMOs to deliver quality products to our regulatory specifications.</p> <p>Demand forecasting and supply planning processes, with monthly reviews of demand and production forecasts, inventory levels, and remediation plans for products that are out of supply.</p> <p>We plan to increase our working capital and carry higher levels of safety stock on critical raw materials, and finished products.</p> <p>Processes are in place to monitor and improve product robustness, including Quality and Technical analyses of key products and engagement with internal and external Regulatory stakeholders.</p> <p>A business continuity plan is in place at Skipton, Zagreb and Uldum, and similar plans are being developed for other sites.</p> <p>A project is in progress to review and improve our supply planning processes.</p>	<p>→</p>
  	<p>5 Regulatory Risk:</p> <p>Failure to meet regulatory requirements.</p> <p>We conduct our business in a highly regulated environment, which is designed to ensure the safety, efficacy, quality, and ethical promotion of pharmaceutical products.</p> <p>Failure to adhere to regulatory standards or to implement changes in those standards could affect our ability to register, manufacture or promote our products.</p>	<p>Delays in regulatory reviews and approvals could impact the timing of a product launch and have a material effect on sales and margins.</p> <p>Any changes made to the manufacturing, distribution, marketing and safety surveillance processes of our products may require additional regulatory approvals, resulting in additional costs and/or delays.</p> <p>Non-compliance with regulatory requirements may result in delays to production or lost sales.</p>	<p>The Group strives to exceed regulatory requirements and ensure that its employees have detailed experience and knowledge of the regulations.</p> <p>Manufacturing and Regulatory teams have established quality systems and standard operating procedures in place.</p> <p>A dedicated External Network Quality Director has been appointed to support our CMOs in complying with our regulatory specifications.</p> <p>Regular contact is maintained with all relevant regulatory bodies in order to build and strengthen relationships and facilitate good communication lines.</p> <p>The Regulatory and Quality teams update their knowledge of regulatory developments and implement changes in business procedures to comply with new requirements.</p> <p>Where changes are identified which could affect our ability to market and sell any of our products, a response team is created in order to mitigate the risk.</p> <p>External consultants are used to audit our manufacturing quality systems.</p>	<p>↑</p> <p>Increasing regulatory requirements and CMO compliance with our regulatory specifications</p>

Link to
Strategic
Growth
Driver and
Enabler

Enabler	Risk	Potential Impact	Control and Mitigating Actions	Trends
	6 Acquisition Risk: Identification of acquisition opportunities and their potential integration. Identification of suitable opportunities 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, environmental 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.	 Managing the integration of new product acquisitions
 	7 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 quality people could result in: <ul style="list-style-type: none"> • 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 and the Board twice a year to confirm 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.	
 	8 Antibiotic 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 enable us to have a comprehensive understanding of regulatory changes. We strive to develop new products and minimise antimicrobial resistance concerns. We communicate appropriate antibiotic use in line with best practice.	
 	9 Retention of 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. 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.	

Key to Strategic Growth Drivers:

- Pipeline Delivery
- Portfolio Focus
- Geographical Expansion
- Acquisition

Key to Strategic Enablers

- Technology
- People
- Manufacturing and Supply Chain

Key to Risk Trend

- Increased Risk
- Decreased Risk
- No Change

Understanding Our Key Risks continued

Emerging Risks

Given current macroeconomic and geopolitical uncertainty we have identified the following emerging risks:

COVID-19

The following key actions have been taken in response to the pandemic:

- We reacted immediately to government guidance by introducing changes to shift patterns and staffing rotas in our manufacturing and logistics facilities to enable our employees to continue to produce and supply essential medicines safely;
- We provided office workers with the technology required to work from home;
- At a leadership level, the SET met weekly to review and discuss the business impact of the pandemic with regular updates provided to the Board;
- A Corona Committee was established to provide health and safety guidance and procedures for our employees and to prepare office locations to enable employees to return as lockdown restrictions are eased;
- Following the sad loss of Simon Francis, our Group Manufacturing and Supply Director to the virus, we implemented our emergency succession planning procedures to appoint Milton McCann as the Interim Group Manufacturing and Supply Director;
- We increased our communication and engagement with investors and have raised equity through a share placing in order to maintain a prudent balance sheet and provide increased financial flexibility; and
- We have conducted additional viability stress testing to assess the impact of a severe and sustained reduction in demand.

Longer Term Impact

The pandemic may result in a global recession and increased trade restrictions, which could impact demand for our products and increase costs. However, the pharmaceutical industry is resilient to economic downturns and many products are not subject to tariffs under the World Trade Organisation Pharmaceutical Tariff Elimination Agreement.

Climate Change

- Our governance and approach to climate change, including our first voluntary disclosure using recommendations of the Taskforce for Climate-related Financial Disclosure (TCFD) are set out on page 61 of the Strategic Report.
- We have assessed the impact of climate change and concluded that there is likely to be some financial risks which would need to be managed, but none that would materially impact our business model. This assessment is consistent with the Sustainability Accounting Standards Board's (SASB) Materiality Map which indicates that the issue is not likely to be material for the pharmaceutical sector.
- The expected impacts are likely to be weather related disruption at internal and external manufacturing sites, and increased cost of fossil fuels.
- We plan to continue to develop our business continuity plans and CMO second sourcing strategy to mitigate these impacts.

Taxation

- The Group's effective tax rate (ETR) is subject to taxation policy in the territories in which it operates. We continue to monitor developments in tax reform globally which may cause future movements in the Group's ETR.
- The EU is currently challenging the legality of the Group Financing Exemption in the UK Controlled Foreign Company tax legislation from which the Group has previously benefitted. We continue to monitor developments. Please also see Note 9.
- The Group currently benefits from patent and innovation box tax incentives in the UK and the Netherlands. The Group's ETR will increase as qualifying patents expire.

Brexit

- We have completed our Brexit preparations and continue to monitor the advice from the UK and EU governing bodies. Our priority is to maintain continuity of supply of our products to our customers in the UK and EU, and we have increased inventory accordingly.
- The changes outlined below will enable us to batch release UK manufactured products within the EU in the event that there will be no mutual recognition of quality standards. We have:
 - transferred our UK registered Marketing Authorisations for products that are sold in the EU to a subsidiary in the Netherlands;
 - transferred the analytical testing methods for products manufactured at our Skipton facility to our laboratories in Bladel and Zagreb; and
 - established a bonded customs warehouse at our EU distribution in Uldum, so that UK products do not require EU testing on entry to the facility.

Viability Statement

Assessment of Prospects

Dechra has consistently delivered on its strategic objectives resulting in a strong track record of growth. The Group's strategy remains unchanged and is set out on pages 18 to 21 of the Strategic Report. The key factors supporting the Group's prospects are explained throughout the Annual Report and are summarised below:

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

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

The Assessment Process and Key Assumptions

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

The strategic planning process is conducted over a five year time horizon and is updated annually. It:

- assesses market and environmental changes and the opportunities and threats such changes may present;
- considers risks to sales and cost forecasts for each part of the Group; and
- includes key assumptions to support longer term projections.

The financial plans are reviewed to confirm that adequate financing facilities are in place. The revolving credit facility is currently committed to July 2024, the Euro placement to January 2027 and the US dollar placement to January 2030.

Progress against financial budgets, forecasts and key business objectives are reviewed through monthly business performance reviews at both Group and business unit levels. Mitigating actions are taken to address underperformance. The latest updates to the plans were reviewed in June 2020 and considered the Group's current position, its future prospects and reaffirmed the Group's stated strategy.

Assessment of Viability and Time Period

The Board has determined that a three year period to 30 June 2023 is an appropriate period over which to provide its viability statement. This time period is supported by the Group's budget process, which includes detailed projections for the next two financial years, and broader projections from the third year of the five year strategic planning process. The Board believes this provides a sound framework for providing reasonable assurance on the Group's viability given the inherent uncertainty associated with longer term forecasts.

The Board's assessment has considered the Group's current position, its future prospects, adequacy of financing facilities, the strategic plan and the management of the Group's principal risks. The viability assessment takes account of all the committed expenditure of the Group.

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

These scenarios have been developed by considering those principal risks that could have a material impact on viability. The potential impact of each principal risk is described on pages 73 to 75 of the Strategic Report. A number of severe but plausible stress tests have been conducted on these areas including a significant pipeline delay; significant profit reduction on top ten products; and loss of key high margin products. A combination of the individual scenarios and an overall reverse stress test on the Group's borrowing facilities and covenant commitments have also been considered. In response to the COVID-19 pandemic, additional stress tests have been conducted to assess the impact of a severe and sustained reduction in demand should a significant global economic downturn occur.

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

Viability Statement

Based on the results of this analysis and the assumptions used in the Group's planning process, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period from 30 June 2020.

Providing Quality Education to Empower Veterinarians to Improve Their Care and Treatment of Animals

Cat and Dog App

The App, launched in March 2019, is an intuitive tool. It is designed to assist veterinarians in developing appropriate anaesthetic protocols for different types of patients and their unique circumstances. It contains information on the full range of relevant and commonly used molecules. It assists veterinarians in choosing the most appropriate product for each procedure and it has an in-built dose calculator that helps to simplify the process and save time for busy veterinarians.

The App is invaluable to veterinarians who will frequently be asked to treat

challenging patients; from paediatric to geriatric, aggressive to moribund, across a wide range of procedures varying from non-painful imaging to severely painful orthopaedic and soft tissue surgery.

Many of these situations are not covered in individual product data sheets or textbooks. The App is therefore unique in providing this up-to-date expert knowledge at veterinarians' fingertips.

52,187

Downloads

3

Languages

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Letter from the Chairman on Governance

**Our Values,
entrepreneurial attitude
and agile approach to
the way we do things
are the backbone of
our Culture**

Tony Rice
Non-Executive Chairman

Dear Shareholder

On behalf of the Board, I am pleased to present Dechra's Governance report for the year ended 30 June 2020.

Board Appointments

During the year there were two membership changes to the Board. We welcomed Alison Platt as Non-Executive Director in March 2020. Alison brings significant capabilities and experience both in Executive and Non-Executive roles, which will strengthen the Board and provide continuity during the next phase of Dechra's growth and development, as well as providing continuity over the forthcoming years with both the Senior Independent Director/Remuneration Committee Chairman and Audit Committee Chairman's nine year terms expiring in 2022. Alison's biographical details can be found on page 85. Alison has been appointed as a member of the Audit, Nomination and Remuneration Committees.

I was delighted to confirm Paul's appointment as Dechra's permanent Chief Financial Officer in October 2019. Paul had proven to be an excellent acting Chief Financial Officer and, over a much longer period, has clearly demonstrated a strong practical understanding of all parts of the Group and its needs, as well as an independence of mind and strong technical, strategic and commercial skills. He has been a core part of the Dechra leadership team over the last ten years and his biographical details can be found on page 82.

Purpose and Culture

Our Purpose is clearly defined and underpinned by our Culture and Values. Further details can be found on pages 4 and 5 and 86 to 88. Our Values, entrepreneurial attitude and agile approach to the way we do things are the backbone of our Culture. We expect our people to make a difference by working together and support them by providing clear guidance on expectations.

Stakeholders and Section 172 Companies Act

The impact of our decisions on our key stakeholders has always been prevalent in our decision making. However, this is the first year that we are disclosing details of how we consider stakeholders in the Board's decisions and approvals of material transactions. Details of our engagement with stakeholders and our approach to section 172 of the Companies Act 2006 can be found on pages 46 and 47, 52 to 68, and 89 to 91.

COVID-19

COVID-19 and its impact on our business and stakeholders has been at the forefront of the Board's mind during the last few months of our financial year. Measures have been put in place to enable all front line employees to operate safely; this has allowed all manufacturing and logistic sites and laboratories to remain open and continue to function effectively. All employees who can work from home have done so successfully. Whilst the Group has put all the necessary preparations in place, we took the decision not to utilise any Government assistance and currently the Board has no intention to use any such assistance.

Continuity of product supply for our customers has been a key priority for Dechra during the pandemic. We invested significant resources to maintain an adequate supply of raw materials and finished goods to meet the market demands. In addition, we expanded our webinar programme in our Academy across the US and Europe.

Board Activities

The current financial year has been busy for Dechra both operationally and in terms of acquisition activity. We approved a placing of 5,132,500 new ordinary shares (the Share Placing), which represented approximately 5% of the Company's existing issued share capital, raising £133.4 million (gross). This allows us to maintain a prudent balance sheet, whilst retaining the flexibility to make the most of the Group's well established and proven four key growth drivers: portfolio focus; pipeline delivery; geographic expansion; and acquisition.

The net proceeds from the Share Placing will also provide the Group with enhanced financial strength, resilience and flexibility through a period of possible disruption arising from COVID-19, so that the Group is not constrained in maximising its long term potential.

Compliance with the Code

The UK Corporate Governance Code 2018 (the Code) establishes the principles of good governance for companies; the following report describes how the Company has applied these principles and provisions to its activities. In the opinion of the Directors, the Company has complied with the Code throughout the period. In respect of provision 38 of the Code, the steps intended to be taken to ensure more effective alignment of incumbent Executive Director pension contributions to those available to the workforce are set out on page 132. The Board remains committed to maintaining high standards of corporate governance. The Code can be found at www.frc.org.uk.

Relations with Shareholders

The Annual General Meeting will be held in Northwich on 27 October 2020. However, due to the COVID-19 pandemic we are asking all of our shareholders not to attend our Annual General Meeting for their own safety and that of others. The only shareholders physically attending are the Chief Executive Officer, Chief Financial Officer and Company Secretary. All other members of the Board are scheduled to attend the Annual General Meeting (the Meeting) via video conference. We request that any shareholders with questions submit these to the Board in advance of the meeting and, subject to appropriateness, the Board will look to respond to those questions on the website.

Looking Forward

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

Tony Rice

Non-Executive Chairman
7 September 2020



Board Leadership and Company Purpose

The Board recognises that excellence in corporate governance is important in order to generate and protect value for our investors. Our governance structure is designed to maintain effective control and oversight of our business whilst at the same time promoting the entrepreneurial spirit that has underpinned Dechra's success to date. This entrepreneurial spirit and agility is illustrated on pages 86 to 88.

Division of Responsibility

We have a strong and balanced Board with a range of complementary skills to support the strategic and operational direction of the Group.

The Senior Executive Team (SET) has the responsibility for the overall leadership of the Group, driving the successful implementation and execution of the strategy.

Composition, Succession and Evaluation

The Nomination Committee Report on pages 96 to 104 sets out the appointment process, its approach to succession for appointments to the Board and Senior Executive Team, the implementation and progress of the Group's diversity policy.

Details in relation to our succession planning and the internal Board evaluation can be found on pages 100, 101 and 104.

Audit, Risk and Internal Control

The Audit Committee Report on pages 105 to 111 contains details on how it has assisted the Board in reviewing the financial reporting and internal financial control effectiveness, and the monitoring of the effectiveness of the external audit process and internal audit function. Further details in respect of the Group's risk management and internal control processes are provided on pages 70 to 76 of the Strategic Report, along with the principal risks, controls and mitigating actions and emerging risks.

Remuneration

Our Remuneration Policy is designed to promote the long term success of the Group and to reward the creation of long term value for shareholders.

The Remuneration Committee has taken into account the wider workforce pay and principles and the culture of the Company when setting the remuneration of both the Executive Directors and the Senior Executive Team. Further details of which can be found on pages 116 and 117.

Board of Directors

Executive Directors

Ian Page

Chief Executive Officer

Committee Membership: Disclosure (Chairman).

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

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

External Appointments: None.

Pets:



Paul Sandland

Chief Financial Officer

Committee Membership: Disclosure.

Skills and Experience: Paul qualified as a Chartered Certified Accountant in 2005. He spent five years post qualification at KPMG, during which time he was part of the team which advised the Group on its acquisition of VetXX in 2008.

Background: Paul joined Dechra in January 2010. Between 2012 and 2013 Paul was Acting Chief Financial Officer prior to becoming the Group's Dechra Veterinary Products EU Finance Director. He was the Group Financial Controller of Dechra and Finance Director of Dechra Laboratory Services and Dechra Specialist Laboratories between January 2010 and April 2015. Paul was appointed as Acting Chief Financial Officer on 3 April 2019, and was appointed as an Executive Director and permanent Chief Financial Officer of the Company on 30 October 2019.

External Appointments: None.

Pets:



Tony Griffin

Managing Director, Dechra Veterinary Products EU

Committee Membership: Not applicable.

Skills and Experience: Tony has over 30 years' experience in the animal health business and has substantial international experience as a result of living and working outside the UK since 1993. He gained broad experience of running an international animal health business with teams in different European countries as Chief Executive Officer of the AUV Group. Tony is the Board nominated Director responsible for health, safety and environmental matters.

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

External Appointments: None.

Pets:



Non-Executive Chairman

Tony Rice

Non-Executive Chairman

Committee Membership: Nomination (Chairman), Remuneration.

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

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

Company, Cable & Wireless, Telwest 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, and Chair at Ultra Electronics Holdings plc.

Pets: None.

Senior Executive Team

Dr Susan Longhofer

Chief Scientific Officer

Background: Susan joined the Group in June 2005. A veterinarian with over 30 years' experience in the industry, she leads a team of approximately 150 staff around the globe responsible for product development, registering new products and maintaining the registrations of our existing products. She has assumed the Business Development role in 2015, searching out new products to continue to fill our product development pipeline. Susan was appointed as Chief Scientific Officer in January 2020, bringing together Business Development, Product Development and Regulatory Affairs.

Prior to joining Dechra, Susan worked for Virbac Corporation, Heska Corporation and Merck Research Laboratories. Susan holds an MS and a DVM in Veterinary Science and is a Diplomate, American College of Veterinary Internal Medicine. She is located in Kansas, USA.

Pets:



Dr Anthony Lucas

Group Product Development Director

Background: Anthony joined Dechra in 2016 following the acquisition of Putney Inc. where he was Senior Vice President of R&D. Anthony is originally a veterinarian from Australia with five years in clinical practice including a residency in emergency and critical care. Following a Masters in veterinary pharmacology, PhD in human pharmacology and post-doc at the University of Kansas, he spent six years at Elanco in early drug development, technology acquisition and has a Six Sigma blackbelt.

In his six years at Putney, Anthony built the R&D team, which delivered ten FDA product approvals.

As the Group Product Development Director, Anthony leads a team of around 70 scientists across five global research centres, to efficiently deliver the pipeline of products to meet Dechra's growth needs. He is located in Maine, USA.

Pets:



Mike Eldred

President North America

Background: Mike joined Dechra in 2004 and is responsible for Dechra Veterinary Products' North American business. Mike has more than 20 years' experience in the animal health sector, having held senior positions in business development, sales and operations at Virbac Corporation, Fort Dodge Animal Health and Sanofi Animal Health.

As our first employee in the USA, he has built the USA, Mexican and Canadian teams to 234 people and has grown sales revenue to £191.6 million. Mike has also been involved in several commercial agreements and acquisitions for the Group including Pharmadern, DermaPet, Phycos Animal Health and Putney. Mike has a BA in Business, and an MBA. He is located in Kansas, USA.

Pets: None.

Giles Coley

Dechra Veterinary Products International Group Director

Background: Giles joined Dechra in January 1999 as sales and marketing manager for Arnolds Veterinary Products having previously spent 14 years primarily involved in dairy farming business consultancy. During his time at Dechra he has been responsible for the launch and market development of our leading brand Vetoryl, as well as a number of our other key brands. Giles has also been an integral member of the teams that ensured fast and smooth integrations of several of our acquisitions, and in particular as lead in the integration of Apex in 2016 and Venco in 2019.

In his role of Dechra Veterinary Products International Group Director, his responsibilities are extremely varied and involve managing and growing our existing business through ANZ and Latin American business and distribution partners, as well as further developing our Dechra International strategy through product registrations and market development. Giles has a BSc degree in Agricultural Technology. He is located in Sansaw, UK.

Pets:



Katy Clough

Group HR Director

Background: Katy joined Dechra in April 2014 from AppSense Ltd where she was the Vice President of HR Europe and Rest of the World. With over 15 years operating at Director level within Software, Health, Travel and Finance industries, Katy brings with her a wealth of HR expertise gained in both blue chip corporates and smaller entrepreneurial companies.

She has strong international, leadership and M&A experience and has taken responsibility for driving the global people agenda for the Dechra Group. She is located at Head Office, Northwich, UK.

Pets:**Allen Mellor**

Group IT Director

Background: Allen joined Dechra in April 2012 and has developed and implemented the Group IT strategy during this time. During the last 26 years, Allen has gained a breadth of experience from the implementation of diverse business solutions across multiple industry sectors including Justice, Education, Energy, Distribution and Retail. He has held several senior management positions encompassing software development, IT service provision and IT departmental management. His last role was as Head of IT for the BSS Group PLC, a leading plumbing and heating

distribution company. Allen is currently responsible for all Group IT support to a multitude of internal customers. He is located at Head Office, Northwich, UK.

Pets:**Milton McCann**

Interim Group Manufacturing and Supply Director

Background: Milton was appointed as Interim Group Manufacturing & Supply Director on 1 May 2020. He joined Dechra in January 2016 as Group Manufacturing Finance Director. In February 2019, he was the Interim Site Director at our Skipton Facility until being appointed as Group Supply Chain and Procurement Director, Dechra Pharmaceuticals Manufacturing & Supply in October 2019. Before joining Dechra, Milton had senior financial roles in different manufacturing industries including coatings, adhesives and chemicals. Just

prior to joining Dechra, he worked for Aramark in the food and facilities services sector.

Milton is responsible for our internal and external manufacturing sites in Europe and the USA.

He is located in Skipton, UK.

Pets: None.**Melanie Hall**

Company Secretary

Committee Membership: Disclosure.

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

Pets:

Non-Executive Directors



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 Non-Executive Director at Lloyd's Register Group Limited.

Pets: 



Julian Heslop

Non-Executive Director

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

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

Background: Julian joined the Board in January 2013. He served as Chief Financial Officer of GlaxoSmithKline PLC (GSK) 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: None.

Pets: 



Dr Lawson Macartney

Non-Executive Director

Committee Membership: Audit, Nomination and Remuneration.

Skills and Experience: Lawson is a veterinarian, with over 30 years experience in a range of senior roles in pharmaceutical R&D, sales and marketing, as well as spending several years in veterinary practices.

Background: Lawson joined the Board in December 2016. He was Chief Executive Officer of Ambrx Inc. between 2013 and 2015, and prior to that led emerging business for Shire PLC. Lawson was with GSK from 1999 to 2011.

His final role at GSK was to lead the strategic marketing, outcomes and reimbursement, project management and portfolio teams. Lawson also has a PhD in viral pathobiology and is a pathologist, holding Fellowship of the Royal College of Pathologists as well as Membership of the Royal College of Veterinary Surgeons.

External Appointments: He is the Chairman of Viking Therapeutics Inc. as well as the Chairman of the Nomination and Corporate Governance Committees.

Pets: 



Lisa Bright

Employee Designated Non-Executive Director

Committee Membership: Audit, Nomination and Remuneration.

Skills and Experience: Lisa has strategic and operational leadership experience in global market leading pharmaceutical and emerging biotech companies gained over her 30 year career in the industry.

Background: Lisa joined the Board in February 2019. She is currently President International, and previously Chief Commercial and Corporate Affairs Officer of Intercept

Pharmaceuticals, Inc, a global pharmaceutical company focused on the development and commercialisation of novel therapeutics. Prior to this, Lisa held various Vice President roles at Gilead Sciences, Inc and GlaxoSmithKline plc, in Regional General Management, Government Affairs, and sales and marketing.

External Appointments: Lisa is also a Non-Executive Director at Ascendis Pharma A/S.

Pets: 



Alison Platt

Non-Executive Director

Committee Membership: Audit, Nomination and Remuneration.

Skills and Experience: Alison has extensive international and leadership experience in customer-driven organisations in the healthcare, insurance and property sectors.

Background: Alison joined the Board in March 2020. She was the CEO of Countrywide between 2014 and 2018. Prior to this Alison held various international positions at Bupa (1993 to 2014). She was

Chair of Opportunity Now between 2010 and 2012 and a Non-Executive Director at Cable and Wireless Communications PLC between 2012 and 2016. Alison was awarded a CMG for services to the Foreign Office in 2011 after six years on the FCO Board.

External Appointments: Alison is a Non-Executive Director at Tesco PLC, Chair of Legal & General Financial Advice and member of the Hampton-Alexander Review steering group.

Pets: None.

Board Leadership and Company Purpose

Board Leadership and Company Purpose Effective and Entrepreneurial 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.

Our Board is composed of highly skilled professionals who bring a range of skills, perspectives and corporate experience to our boardroom. Our entrepreneurial roots have led us to evolving an agile approach to the way we do things.

The Board oversees the effective delivery of the Group's strategy. Dechra has consistently delivered on its strategic objectives resulting in a strong track record of growth. The Group's strategy remains unchanged and is set out on pages 18 to 21 of the Strategic Report. The key factors supporting the Group's prospects are explained throughout the Annual Report and are summarised below:

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

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

The Board undertook a review of the Strategy in December 2019, which included high-level discussions to challenge whether the strategy remains fit for purpose and responsive enough to the market and environment. Some of the key aspects discussed by the Board during its strategy review included:

- our market strategy for the next five to ten years;
- our innovative product development strategy;
- our vaccines strategy;
- the overall manufacturing strategy; and
- responsibility matters including our future net zero carbon emissions strategy.

KPIs have been designed to measure progress and delivery of the strategic plan and our four growth drivers. Further details are provided on pages 34 to 35.

→ Read more about our **Purpose** on pages 04 and 05

→ Read more about our **Principal Decisions** on page 47

Entrepreneurial and Agile – Acquisition of Mirataz from Kindred Biosciences Incorporated

Dechra has a long history of growth through acquisition. This year, a collaborative group of Dechra employees across our Business Development, Commercial, Regulatory, Legal and Finance Teams worked together to meet an extremely short timeframe to close the transaction with Kindred Biosciences, Inc for the acquisition of Mirataz® (mirtazapine transdermal ointment). The highly agile team moved from the initial contact on 8 February 2020 to a fully completed acquisition by 15 April 2020. Dechra's first commercial sale of Mirataz occurred on 22 April 2020.

Without the agility of the Dechra team members, this transaction would not have been possible. It is a great example of how Dechra can move quickly and meet the expectations of our business partners, behaving as entrepreneurial spirits and achieving the conclusion of the desired outcome for Dechra's future.

Culture, Purpose and Values

Culture

Our Values, entrepreneurial attitude and agile approach to the way we do things are the backbone of our culture. We expect our people to make a difference by collaborating with each other and support them by providing clear guidance on expectations

Our Purpose

The sustainable improvement of global animal health and welfare

Our Values

Everything we do is underpinned by our Values

Dedication

We are dedicated to delivering products and services that meet the highest level of service and quality to our customers

Enjoyment

We endeavour to create an environment where our people want to come to work and feel a part of Dechra

Courage

We want a business where we dare to challenge each other, where innovation and creativity can flourish

Honesty

We are honest and open in all interactions and act with integrity and fairness

Relationships

We see our customers and suppliers as business partners and thereby work together to achieve common success

Ambition

We are goal oriented and deliver solid results through our energetic and resilient approach

Our Culture Defined

Entrepreneurial & Agile

We move quickly to make decisions and have 'light touch' bureaucracy supported by strong governance. We expect accountability and encourage our people to seek out new opportunities to help us grow

Transparent

We are open and honest with our people and our suppliers and customers. We tell it like it is

Collaborative

We know that the best outcomes arise from true team working and operate in a matrix structure, sharing best practices around the globe and harnessing the power of our different cultures

Enthusiastic/Energetic

We want our people to enjoy coming to work; we are informal and look for people who share our passion for what we do. We love people that want to make a difference

Our Measures

- Engagement survey helps to determine levels of employee engagement on a wide range of matters
- Employee engagement with the Board via designated Non-Executive Director
- External Culture audit planned with Great Place to Work for the UK
- Raise a Concern Reports
- Internal Audit Reports
- Moving Annual Turnover of Employees

→ Read more about **Employee Engagement** on pages 55 and 90

Board Leadership and Company Purpose continued

Entrepreneurial and Collaboration: Polish Team – Webinars During Lockdown

Within the European Commercial organisation our team in Poland has consistently demonstrated the key cultural strengths that makes Dechra a success not only in Poland but globally. Dechra Poland celebrated their fifth anniversary earlier this year and has previously organised a hugely successful Dechra Academy live event with more than 400 Polish veterinarians attending over a weekend, to listen to a number of Key Opinion Leaders (KOL's) who had flown in from across Europe. The Polish team has established Dechra as a leading force in their market in organising CPD events for our customers.

The next event had been planned for the end of March 2020, and 450 veterinarians had registered to attend. Unfortunately, due to COVID-19 travel restrictions the event had to be cancelled, which was a huge disappointment for the team. However, this did not stop

the team and they demonstrated their enormous entrepreneurial and collaborative spirit. Instead of complaining, they quickly planned a complete new programme of CPD webinars, which were held at the end of May. In total they organised 18 webinars, covering topics in Dermatology, A&A, Cardiology, Cattle issues and Pig and Poultry. KOL's from Poland and other European countries presented and collaborated with the team of veterinarians in the Dechra FAP Business Unit. In total 7,994 veterinarians and 187 veterinary students attended these webinars, with an amazing 2,000 attendees for the two A&A events. The enthusiastic way in which the Polish team managed these events, which took place mainly in the evening, is typical of the commitment delivered across the whole Dechra organisation during the COVID-19 period.

Prudent and Effective Controls

Internal Controls and Risks

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

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 internal control and risk management can be found in the Governance Report on page 109 and the Strategic Report on pages 70 to 72.

Matters Reserved for the Board

There is a formal schedule of matters reserved for the Board. The schedule of matters covers a number of areas including strategy, approval of acquisitions and business development proposals, the dividend policy, budget, internal controls and risk management and Group policies.

The schedule of matters is reviewed periodically and was last reviewed in December 2019 along with the Delegation of Authority Policy. The Delegation of Authority Policy defines who is authorised to make decisions on behalf of the Group and their authority limits for both monetary and non-monetary decisions.

Constructive use of the Annual General Meeting

Due to the COVID-19 pandemic we are asking all of our shareholders not to attend our Annual General Meeting for their own safety and that of others. The only shareholders physically attending are the Chief Executive Officer, Chief Financial Officer and Company Secretary. All other members of the Board are scheduled to attend the Annual General Meeting (the Meeting) via video conference. We request that any shareholders with questions submit these to the Board in advance of the meeting and, subject to appropriateness, the Board will look to respond to those questions on the website.

The 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.

Key Stakeholders

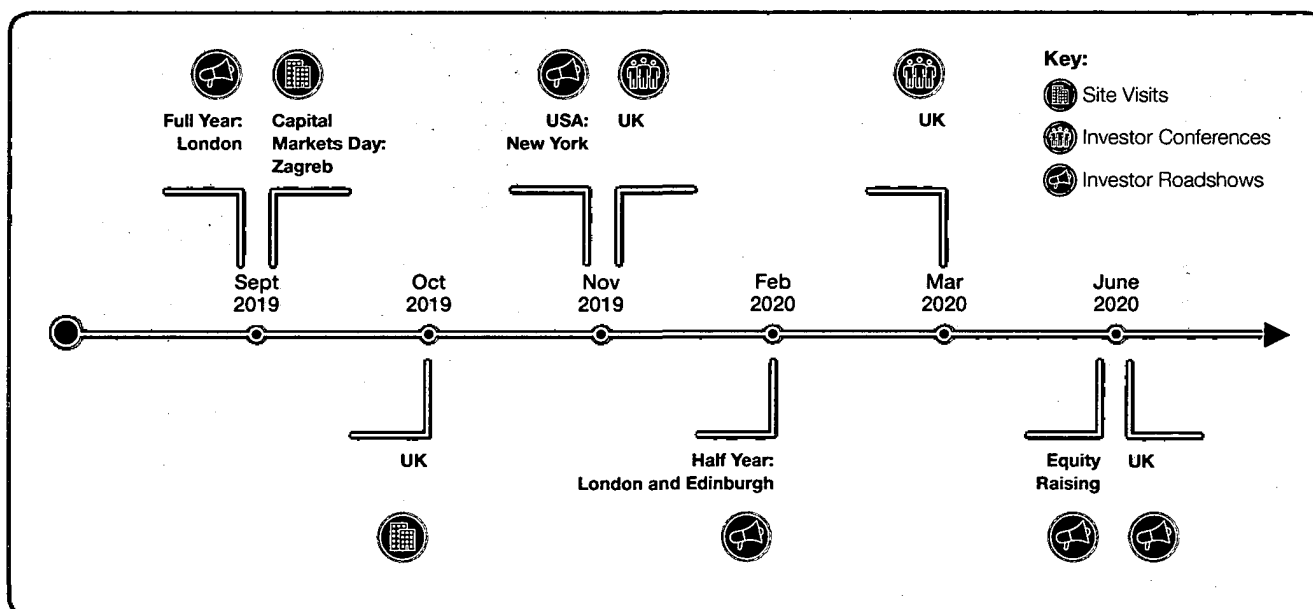
The Board is responsible, under section 172 of the Companies Act 2006, for promoting the long term success of the Company for the benefit of its shareholders, having regard for its stakeholders. Further details on how the Board considers key stakeholders can be found on pages 46 and 47.

As disclosed above our Delegation of Authority Policy outlines who is authorised to make decisions and financial commitments throughout the Group. This also supports our entrepreneurial nature and agile approach. Therefore a lot of decisions relating to the business and stakeholder engagement are carried out below Board level. However, all material decisions are discussed and approved by the Board and the following provides an outline of some of the matters that the Board had considered and engaged with our stakeholders.

Shareholders

Principle: The Board's principal role is to promote the long term success of the Company for the benefit of its shareholders.

- Relationships with shareholders receive high priority and a rolling programme of meetings between institutional shareholders and the Chief Executive Officer and Chief Financial Officer have been held throughout the year (a summary of the main events is shown below). These meetings seek to foster a mutual understanding of both 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.



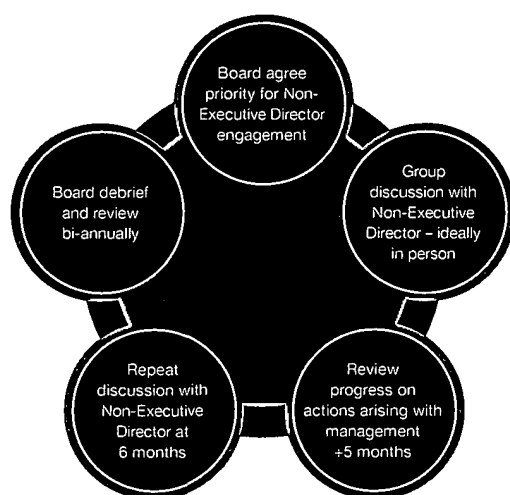
- The Board reviewed and considered feedback, collated by the Company's brokers, after investor roadshows.
- Where material changes in respect of remuneration or governance are proposed, the Board seeks to consult with its major shareholders before implementing such changes. During the year, the Remuneration Chair consulted with our major shareholders with regard to the new Remuneration Policy.
- All members of the Board attended the 2019 Annual General Meeting. This provided an opportunity for informal communications between shareholders and Directors.
- Board approval is required for significant announcements.
- The Company's brokers provided a presentation supporting the case for the equity placing in June 2020 to the Board.
- The Chairman and Senior Independent Director are available to meet shareholders upon request.

Board Leadership and Company Purpose continued

Employee Engagement

We appointed Lisa Bright to the Board in February 2019. During the recruitment process we had established that we were looking for someone who could take on the role of the Employee Engagement Designated Non-Executive Director (EED Non-Executive Director) who would represent the voice of our employees in the Boardroom. As part of Lisa's onboarding to the Group she attended the Group Head office in Northwich, and has also visited our employees at our Logistics centre in Uldum, Denmark, where she had a number of meetings with key stakeholders in the business. She also attended several sessions for Non-Executive Directors taking on this new responsibility to share best practice.

Lisa worked closely with Katy Clough, Group HR Director, to determine the best approach. A proposal was taken to the Board for discussion and ultimately it was agreed that Lisa would meet with small groups of employees initially two or three times a year with a pre-determined agenda to discuss topics of Board relevance and then to have a broader employee led discussion. It was agreed that for practical purposes, meetings would be held in Europe and North America, with an initial pilot to take place in Skipton where we have an employee elected Works Council. Meetings were also scheduled to take place in Sansaw in the UK in May and at our facility in Zagreb in June 2020.



The pilot meeting took place in Skipton in December 2019. The meeting was well attended, and after an initial presentation by Lisa Bright to explain the reason for her role and what she hoped to achieve, we then worked through an agenda which covered the outcomes of the previous and most recent engagement surveys, any areas of concern, how improvements could be made and a plan on how to follow up on the actions discussed during the meeting.

Unfortunately, the pandemic has forced a postponement of the other two sessions planned for this financial year. However, a video conference meeting was held to follow up on the actions arising from the Skipton session with the management team. At this meeting, we discussed a summary of the actions taken at site, which included: improvement to internal communication; review of the QC laboratory; and an action on training and development. Lisa Bright will also attend a virtual Works Council meeting in September 2020 to understand first-hand what the impact has been for the employees.

In presenting the results of the engagement pilot to the Board, the following points were noted:

- feedback from the employees suggests the meeting was well received;
- it is important to delineate difference between Board and management remit during the sessions; and
- it would be useful for the EED Non-Executive Director to get a broader perspective on employee communications and, as such, now has access to the Company intranet which is the primary tool for internal communication.

We plan to resume the original schedule in the new calendar year and are planning a virtual alternative, but acknowledge that in person meetings are likely to generate greater trust and openness. Whilst we are limited to virtual meetings, we will focus on meetings in English speaking countries.

We are also planning on using internal communications to publicise the EED Non-Executive Director role more broadly to the wider organisation and we are planning a brief video with some comments from the Skipton Works Council team about their interaction and the value for them.

Employees

Principle: The Board believes that the Group's employees are its greatest asset. Our ongoing objective is to continue to be a high performing business driven by highly skilled and committed teams. A key element of our People Plan is that we want Dechra to be a great and safe place to work.

- The Board was provided with the results of the COVID survey.
- The Group HR Director provided an update to the Board in June 2020 on the actions taken by teams throughout the Group on the agreed priority actions emerging from the 2018 employee engagement survey.
- The Board met formally and informally with the Senior Executive Team (SET).
- Twice a year a comprehensive health and safety report is provided to the Board for its review.
- The Board were provided with updates from the Corona Committee on actions taken in respect of employee's welfare and safety during the pandemic.
- Lisa Bright, the Non-Executive Director designated for employee engagement, provided two reports to the Board.

Due to COVID-19, the scheduled Board meeting at a business unit was postponed.

Customers

Principle: To innovate, develop, register, manufacture, supply and market high quality products to the veterinary profession worldwide. We provide high levels of service, technical support and educational training to develop a strong relationship with, and be recognised as an important partner to, veterinarians.

- Each of the SET members for DVP EU, NA, and International have provided in-depth presentations on their markets, customer requirements and customer consolidation.
- Approval of licensing arrangements which will bring new technologies and products into our pipeline and product portfolios.
- The Board reviews the Product Development Pipeline twice a year.

Community

Principle: 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.

- Twice a year a report of the Group's CO₂ emissions are provided to the Board for its review.
- The Company Secretary provided an update of the progress of the CSR Committee in refreshing and implementing the ESG strategy.

Suppliers

Principle: The Company is committed to acting responsibly and with integrity, respecting the laws, regulations, of the countries in which it operates. It expects its suppliers to trade with honesty and integrity.

- The Board reviewed and approved the Modern Slavery Statement.
- The Group Manufacturing and Supply Director presented to the Board and this included a discussion on the contract manufacturing organisation strategy.
- The Board reviewed and approved a number of material API contracts during the year.

How to Raise a Concern

The Board is committed to the highest possible standards of openness, integrity and accountability and encourages any individual who has genuine concerns about any form of malpractice, including any breaches of the Values, within Dechra (or in relation to its business) to raise those concerns at an early stage via its How to Raise a Concern procedure.

We offer four reporting channels for concerns to be raised: Line Manager; the Senior Management Team; Group Management Team; and a mailbox accessed only by the Company Secretary. Every effort is made to protect confidentiality to encourage reporting. We fully investigate reports and take appropriate actions to address these. A summary of any reported concerns is provided to the Board.

Conflicts of Interest and External Board Appointments

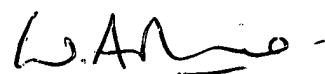
Under the Companies Act 2006 (the Act), all Directors have a duty to avoid a situation in which they have, or could have, a direct or indirect conflict of interest with the Company. As permitted under the Act, the Articles of Association of the Company enable the Directors to consider and, if appropriate, authorise any actual or potential conflict of interest which could arise.

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

None of the Executive Directors have external Board appointments.

Tony Rice

Non-Executive Chairman
7 September 2020



Division of Responsibilities

Division of Responsibilities

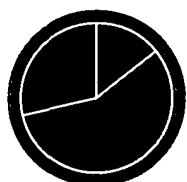
The Board oversees the effective delivery of our strategy which is developed and implemented by the SET. Further details of the Board and SET can be found on pages 82 to 85.

Board Membership

Details of the Directors together with details of their respective Committee membership, skills and experience, backgrounds and external appointments can be found on pages 82 and 85. As detailed in the pie chart below, the Board consists of one Non-Executive Chairman, five independent Non-Executive Directors and three Executive Directors. Therefore, in line with the Code, at least half the Board, excluding the Chairman, is determined by the Company to be independent.

The Chairman was deemed independent on appointment in accordance with provision 10 of the Code.

Board Membership



- Non-Executive Chairman **14.3%**
- Non-Executive Directors **57.1%**
- Executive Directors **28.6%**

The Board has determined, following the results of internal board evaluation, that the Non-Executive Directors have sufficient time to meet their Board responsibilities and any proposed new appointments are disclosed to the Board, for their approval, to assess whether there are any conflicts of interest or time.

The Board has formally delegated specific responsibilities to Committees, namely the Audit, Remuneration, Nomination and Disclosure Committees. The Disclosure Committee members are the Chief Executive Officer, the Chief

Financial Officer, the Corporate Development Director and the Company Secretary. The full terms of reference for each of these Committees are available on the Company's website (www.dechra.com) or on request from the Company Secretary. Other matters have been delegated to the SET and other committees such as the Data Protection Committee, Strategic Portfolio Prioritisation Committee and Treasury Committee.

The SET is led by the Chief Executive Officer and is comprised of the three Executive Directors and the Business Directors responsible for leading each of the Group's key functions. The SET is scheduled to meet formally four times a year to discuss the implementation of the strategy, share best practice and provide updates on their business or function as well as sharing market trends which impact the business.

However, during the height of the COVID-19 pandemic it met weekly to discuss the impact of the pandemic on the business, in relation to suppliers and customers, and received reports from the Corona Committee, which was established to implement policies and procedures for the safety of our employees. The Board was provided with regular updates.

Board Meetings

The Board is scheduled to meet seven times per year. During the year four additional meetings were held to discuss the proposed acquisition of the *Osurria* and *Mirataz* products, the appointment of an Executive Director and the equity placing. Attendance at the Board meetings during the year to 30 June 2020 is set out in the table below.

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. Both Tony Rice and Lisa Bright were unable to attend one ad hoc short notice meeting each; however, prior to the meeting they submitted questions and comments on the subject matter in question.

The Non-Executive Directors normally meet informally before every meeting; however since March, due to the pandemic, this has not been possible. They also met once with the SET on an informal basis during the year.

Tony Rice Joined: 5 May 2016	10 11	Julian Heslop Joined: 1 January 2013	11 11
Ian Page Joined: 13 June 1997	11 11	Lawson Macartney Joined: 1 December 2016	11 11
Tony Griffin Joined: 1 November 2012	11 11	Ishbel Macpherson Joined: 1 February 2013	11 11
Paul Sandland Joined: 30 October 2019	9† 9	Alison Platt Joined: 1 March 2020	5‡ 5
Lisa Bright Joined: 1 February 2019	10 11		

† Paul Sandland attended all meetings since his appointment as an Executive Director, however, he was present at the two other meetings held during the year as an invitee.

‡ Alison Platt has attended all meetings since her appointment.

Should Directors have concerns of any nature, which cannot be resolved within the Board meeting, they have the right to have their view recorded in the minutes.

In the months where there is no Board meeting scheduled, an update is provided on the business. In addition, arrangements are in place should Board approval be required outside of the scheduled meeting dates.

1. Non-Executive Chairman

- Leads the Board in the determination of Group strategy and achievement of its objectives.
- Drives the effectiveness of the Board in all aspects of its role.
- Facilitates the effective contribution of the Non-Executive Directors, enabling all decisions to be subject to constructive debate and supported by sound decision making processes.
- Arranges for shareholder views to be brought to the attention of the Board.

2. Chief Executive Officer

- Manages day-to-day operations of the Group and leads the Senior Executive Team (SET).
- Drives performance and results of the Group.
- Proposes strategy.
- Executes strategy agreed by the Board.



3. Chief Financial Officer

- Responsible for financial planning and reporting for the Group.
- Manages financial risk.
- Develops and executes the strategic plan in conjunction with the Chief Executive Officer.
- Secures funding as required.

4. Managing Director Dechra Veterinary Products (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.

5. Senior Executive Team

- Leads the development and implementation of the business strategy.
- Manage day-to-day operations of respective functions.

6. Employee Engagement Director

- Gathers and understands the views of the workforce.
- Enables the voice of the workforce to be heard in the boardroom.

7. Company Secretary

- Advises the Board on matters of procedure and governance.
- Provides all required information to the Board on a timely basis.
- Enables information flows between the SET, the Board and its Committees.
- Provides support to the Chairman and Non-Executive Directors.
- Responsible for compliance with relevant statutory and regulatory requirements.

8. Non-Executive Director

- All of the Non-Executive Directors:
- are considered independent;
 - are free of any business or other relationship which could materially interfere with, or compromise, their ability to exercise independent judgement;
 - are considered to have 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;
 - provide an independent and constructive challenge; and
 - evaluate strategy and risks.

9. Senior Independent Director

- 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.
- Leads the annual evaluation of the performance of the Chairman by the Non-Executive Directors.
- Chairs the Nomination Committee when it is considering the succession of the Chairman.

Division of Responsibilities continued

Shareholders

The Dechra Board

Key Responsibilities

Responsibilities	Actions
Strategy and performance	Bi-annual strategy review. Strategic decisions are made after reports and recommendations are received from management on markets, potential growth areas including acquisitions, product development and risk analysis, including execution risks
Risk management and internal controls	Ongoing review of key risks and material internal control processes. Review of stress tests on the Group's forecasts to support the viability statement. Receipt of Audit Committee reports on the 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 Group and business unit reports and detailed financial result reports
Governance	Receive governance reviews from external advisers, the Company Secretary and internal audit. Review of Board skills, performance, composition and succession planning. Approval of Annual and Half-Year Reports

Audit Committee

- To review and oversee the Group's financial and narrative reporting processes and to monitor the integrity of the financial statements, and advises the Board on whether 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 109 and the work of the internal audit function.
- To oversee the relationship with, and review the effectiveness of, the external auditor, monitor their independence and objectivity, and set the policy for non-audit work.
- To review and approve the significant accounting policies.

Disclosure Committee

- To develop and maintain adequate procedures, systems and controls to comply with the Company's obligations regarding identification and disclosure of inside information.
- To verify that all significant regulatory announcements and other documents issued comply with applicable requirements.

Remuneration Committee





























































- To determine the policy for remuneration and setting the remuneration of the Company's Chairman, Executive Directors and Senior Executive Team.
- To establish remuneration schemes that promote long term shareholding by Executive Directors.
- To design remuneration policies and practices to support strategy and promote long term sustainable success.
- To review the design of all share incentive plans.
- To oversee any major changes in employee benefit structures.
- To review workforce remuneration and related policies.

Nomination Committee

- To oversee the development of a diverse pipeline and to satisfy itself that plans are in place for orderly succession.
- To recommend appointments to the Board.
- To review the results of the performance evaluation of the Board, its individual members and its Committees.

Board Activities

At each meeting the Board receives trading, financial and strategic updates from the Chief Executive Officer and Chief Financial Officer. During the year each SET member will present to the Board, providing the Board the opportunity to take a deep dive into the operations and strategic plans of the respective businesses, as well as reviewing their specific risks. In addition to its routine business, the table below details the other matters discussed during the year and the respective key stakeholders affected.

Topic	Key activities and discussions in 2019/2020	Stakeholder
Strategy and performance	• Interim and full Strategy Review	   
	• Approval of five year plan	 
	• Bi-annual update on product pipeline and product development	  
	• Various acquisition and licensing agreements approvals, including the acquisition of Ampharmco LLC, the increased investment in Medical Ethics Pty Ltd and acquisition of the <i>Mirataz</i> and <i>Osumia</i> products	 
	• Financing update and Share Placing	   
Risk management and internal controls	• Approval of Half Year and Full Year principal risks and emerging risks	   
	• Presentations from the SET on their respective risks	   
	• Risk Assessment Review and Viability Statement review	
	• Review of Schedule of Matters and Delegation of Authority	 
Governance	• Review of Disclosure Terms of Reference	
	• Review of 2020 Internal Board Evaluation	
	• Approval of 2020 Half-Yearly Results and interim dividend	
	• Approval of 2020 Full Year Results and final dividend recommendation	
	• Approval of Non-Executive Director appointment and Committee membership	 
	• Approval of Executive Director appointment	 
	• Review of the bi-annual Health and Safety Report	
	• Review of Modern Slavery Statement	 
	• Review of How To Raise Concern Policy and Reports	
	• Approval of revised Articles of Association	
	• Employee Engagement update	
Oversight of the Group's operations	• Functional presentations from the SET and Head of Legal	   
	• Report from Group Quality Director	 
	• Approval of the 2020/2021 budget and capital expenditure projects	 
	• Review of the people strategy and employee engagement	
	• Approval of API Contracts	  
	• Approval of Leases	 
	• COVID-19 Update	 
	• Review of the Group's ESG strategy	   

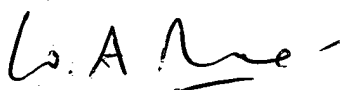
Key

 Customers  People  Shareholders  Suppliers

Tony Rice

Non-Executive Chairman

7 September 2020



Composition, Succession and Evaluation

Letter from the Nomination Committee Chairman

Tony Rice
Nomination Committee Chairman

4

Nomination Committee Meetings Held

Areas of Focus this Year

- Diversity
- Board Appointments and Succession Planning
- SET Succession Planning and Leadership needs of the Group
- Board Evaluation and Committee Effectiveness

Dear Shareholder

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

The Committee has continued the work it commenced last year to address the Board succession plans in relation to Non-Executive Directors, and during the year Alison Platt was appointed as a Non-Executive Director. This appointment brings our Board gender diversity from 14.3% in 2018 to the threshold recommended by the Hampton Alexander Review.

The Committee regularly considers succession and emergency planning both for the Executive Directors and the Senior Executive Team (SET). Following the resignation of Richard Cotton, Executive Director and Chief Financial Officer, we are pleased, after a successful period as Acting Chief Financial Officer, to have appointed Paul Sandland as Chief Financial Officer and Executive Director. With over ten years' experience in senior finance roles in Dechra, Paul brings with him a strong practical understanding of all parts of the Group and its needs, as well as an independence of mind and strong technical, strategic and commercial skills.

The Group had to utilise its emergency succession planning again this year, but unfortunately in very sad circumstances as we lost our Group Manufacturing & Supply Director, Simon Francis, due to COVID-19. I would like to take this opportunity to acknowledge that in the relatively short period that Simon was with Dechra, he brought a high level of capability and professionalism to the business and galvanised a vital area of our operations. He left behind a strong infrastructure and management team which has continued to operate and make progress under the interim leadership of Milton McCann.

The Committee believes that the Board continues to have the appropriate skills, knowledge and experience to oversee the effective delivery of our strategy. The Committee also believes that the Group has an experienced SET to lead the development and implementation of this strategy.

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

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

Tony Rice

Nomination Committee Chairman
7 September 2020



Committee Membership and Attendance

Tony Rice Joined: 5 May 2016	4 4	Lawson Macartney Joined: 1 December 2016	4 4
Julian Heslop Joined: 1 January 2013	4 4	Lisa Bright Joined: 1 February 2019	4 4
Ishbel Macpherson Joined: 1 February 2013	4 4	Alison Platt Joined: 1 March 2020	1 1

Purpose

The purpose of the Committee is to lead the appointment process, satisfy itself that plans are in place for orderly succession for appointments to the Board and Senior Management, and oversee the development of a diverse pipeline for succession.

Membership, Meetings and Attendance

The membership of the Committee, together with appointment dates and attendance at meetings during the year, is set out above. Alison Platt joined the Committee on her appointment to the Board in March 2020. All Committee members are Non-Executive Directors, all of which we deem to be independent. 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.

Effectiveness of the Committee

The Committee's performance was evaluated as part of the 2020 Board and Committee Internal Evaluation (further details of which are provided on page 104 of the Governance Report). The findings of the internal evaluation were presented to the Committee for discussion at the June 2020 meeting. The Committee considered the results and it was agreed that the Committee remained effective and was covering all areas within its remit, however acknowledged that more work on succession planning was required.

Role and Responsibilities

The role and responsibilities of the Committee are set out in the written terms of reference, which are available on the Company's website at www.dechra.com. The Committee's terms of reference are reviewed on an annual basis. During the 2020 financial year this took place at the February meeting and they were amended to include additional wording around the Committee's duties and in particular the widening of their remit to include senior management. Additional wording has also been included in relation to induction and training of Directors and the requirement to consider diversity in any appointments. An overview of the terms of reference is detailed on page 94 of the Governance Report.

The Committee provides a report to the Board on its activities at the Board's next scheduled meeting.

Major Activities of the Committee during the Year

The Committee met four times since the last Annual Report was issued, three of these meetings were scheduled and one was ad hoc and dealt with the nomination of the Chief Financial Officer. The Committee Chairman and the Company Secretary have developed an annual programme of business. This allows the Committee to consider standing items of business alongside any exceptional matters that may arise during the course of the year.

The table below shows the other key areas of the Committee activities:

Purpose and Function (see page 97)	<ul style="list-style-type: none"> Review of the Committee's terms of reference Review of the effectiveness of the Committee
Composition (see pages 97 and 98)	<ul style="list-style-type: none"> Review of Board skills, knowledge and experience Recruitment of Non-Executive Director Nomination of Executive Director
Succession (see pages 100 and 101)	<ul style="list-style-type: none"> Consideration of Non-Executive Directors' tenure Review of SET succession plans and leadership needs
Evaluation (see pages 97 and 103)	<ul style="list-style-type: none"> Review of composition of Board Review of Director effectiveness
Diversity and Inclusion (see pages 101 to 103)	<ul style="list-style-type: none"> Review and approval of Diversity Policy Review of the Dignity at Work Policy

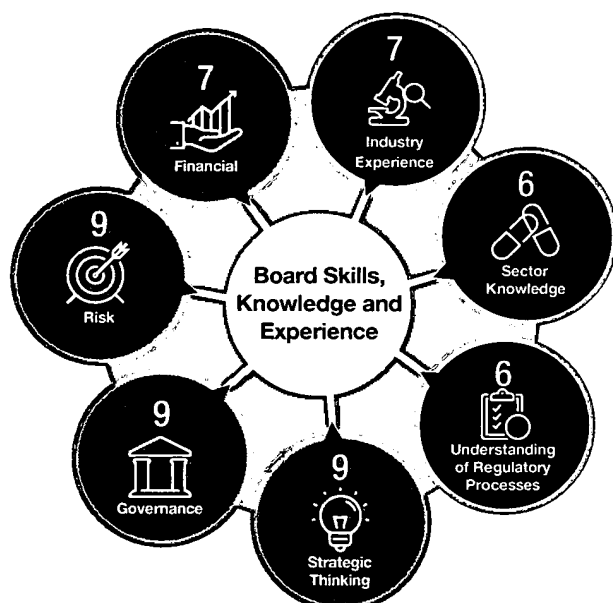
Composition

The Board seeks to ensure that both the Board and the Committees have an appropriate composition to manage their duties effectively and manage succession issues. It supports diversity in its broadest sense and considers it an essential driver of Board effectiveness. The Board recognises it is important that its composition is sufficiently diverse and reflects a wide range of knowledge, skills and experience. The Committee reviews the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board at least once a year and usually at the June meeting. Both the Audit Committee and Remuneration Committee undertake an annual review of their composition, and any concerns would be reported to the Board.

Information on diversity of the Board can be found on page 101 to 103.

Composition, Succession and Evaluation continued

Board Skills, Knowledge and Experience



- Industry knowledge/expertise
- Skills/experience of the Board

Following the review of the Board, the Committee concluded that the Board had a combination of skills, experience and knowledge as illustrated in the diagram above, and subject to the forthcoming retirement of two Non-Executive Directors in 2022 was of a sufficient size. The Committee concluded that the temporary increase in size was of benefit in the short term for effective succession, and to allow for wealth of knowledge and experience of Dechra to be shared with the new Non-Executive Directors.

Training

In order to assist the Board in maintaining 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. Unfortunately, this year's visit to Zagreb in June 2020 was postponed due to COVID-19's restrictions on travel.

Regular briefings are provided to the Directors, which cover a number of legal and regulatory changes and developments relevant to each Director's area of responsibility. In addition, the Company Secretary informs the Directors of any external training courses which may be of relevance, and all Directors are encouraged to raise any training needs with the Company Secretary. During the year, DLA provided training on Director's duties, which included ongoing responsibilities and obligations to Paul Sandland, on his appointment as an Executive Director. In addition, the Remuneration Committee has been provided with updates from Deloitte LLP.

Each Director is entitled, upon request, to receive information to enable them 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 Appointments

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:

- Paul Sandland (Executive Director) joined the Board on 30 October 2019; and
- Alison Platt (Non-Executive Director) joined the Board on 1 March 2020.

Executive Director

Following the resignation of the Chief Financial Officer in April 2019, the emergency succession planning was utilised and Paul Sandland, the then DVP EU Finance Director, was appointed as the Acting Chief Financial Officer. Paul had previously acted as Interim Chief Financial Officer in 2012, and at this time he was identified as a potential future candidate for the role of Chief Financial Officer, however the Board felt he would benefit from experience outside of a central finance role. As part of his development programme and an integral part of the succession planning, he was deployed to DVP EU, the largest sales and marketing organisation of the Company.

The Committee members undertook extensive and in depth one-to-one interviews with Paul Sandland for the permanent Chief Financial Officer role. The Committee members were unanimous in support of Paul's appointment and agreed to proceed to the formal process of a discussion and confirmation of the appointment. In addition to the lengthy discussions Paul had with each Non-Executive Director, he had an interview with the Relationship Partner at Investec, who was also supportive of his appointment. The same feedback had been received from the External Audit Engagement Partner, and the Committee concluded that Paul had demonstrated that he was a suitable candidate for the role and would provide continuity for the Chief Executive Officer. In addition, he had clearly demonstrated a strong practical understanding of all parts of the Group and its needs, as well as having an independence of mind and strong technical, strategic and commercial skills.

The Committee members provided their feedback on the development needs and required support, which has been supplemented with suggestions provided by Paul, and a robust development plan has been put in place taking advantage of the network of the Board to enable Paul to transition into the role. The development plan was presented to the Nomination Committee for their approval and its progress has been reviewed twice by the Committee. The development programme has consisted of external training and internal mentoring, with the Audit Committee Chairman assisting with the mentoring programme.

On 29 October 2019, the Committee recommended to the Board that Paul Sandland be appointed as an Executive Director and permanent Chief Financial Officer of the Group.

Non-Executive Director

During the 2018 financial year the Committee commenced the recruitment of an additional Non-Executive Director who would both further strengthen the Board and also take the lead on the Board's responsibilities regarding Employee Engagement. The search produced two outstanding potential candidates who went through the full scrutiny process. Both were considered fully capable for the role and we were delighted in March 2019 to appoint Lisa Bright. In the 2019 financial year, when the Board and Committee were looking at Board succession given the approaching time limitation on independent Non-Executive Director service for our two Committee Chairs, we went back to the other candidate who had withdrawn late on in the

original process due to the possible time constraints of another likely role which subsequently did not materialise. That candidate was Alison Platt, and we were equally pleased to appoint her to the Board, following an additional interview process, given her range of executive and non-executive Board experience in several major companies.

The recruitment process was as follows:

1 Nomination Committee

One of the criteria was that the candidates should have Human Resources experience which would be beneficial in light of the new Corporate Governance requirements around engagement with the workforce and oversight of the wider Group remuneration principles by the Remuneration Committee. In addition, they were required to have a broad business experience and be a good fit with the culture of the Company.

2 Engage

Dzaleta Consulting (Dzaleta) was appointed.

3 Meet

To assist Dzaleta with the understanding of the requirements of the role, they met with the Group HR Director, Chief Executive Officer and the Chairman.

4 Consider

The long list of candidates was circulated to the Committee for comments before a short list was agreed.

5 Select

All of the candidates had a broad range of experience from a wide range of different backgrounds including executives in blue chip FTSE organisations, partners in consulting firms and a number of candidates with an established portfolio career.

6 Interview

The first interviews were with the Chief Executive Officer and Group HR Director, the second interviews were held with the Chairman, and successful interviewees met with the remaining Non-Executive Directors prior to appointment.

Alison Platt withdraws from the process.

The 2020 financial year recruitment process:

The Committee became aware that Alison Platt was available for a Non-Executive Director position.

7 Interview

The Committee agreed that a further one-to-one interview should take place but this time with each member of the Board and Company Secretary. Alison's other appointments were considered to check there was no conflict of interest or time. References were taken.

8 Appoint

Alison Platt was appointed to the Board on 1 March 2020. Further details relating to her background and experience can be found on page 85.

9 Induct

See case study on page 100.

The Committee recommended the appointment of Alison due to: her international commercial industry experience which will assist as Dechra expands its international footprint; her experience as a Chief Executive Officer which will enable her to provide challenge and advice to the Board; and her FSTE 100 experience. In addition, her appointment will provide continuity for the Board in light of the forthcoming retirements of the Audit Committee Chairman and Remuneration Committee Chairman in 2022.

Dzaleta Consulting were previously retained in 2016 in relation to the recruitment of a SET member, an Executive Director and the Chairman of the Board, and has no other connection with the Company or individual Directors.

Induction

Any newly appointed Directors are provided with comprehensive documentation in relation to the remit and obligations of the role, current areas under consideration for the Board and the latest equity research reports. New Directors visit the various business units in order to allow them to meet with the management teams and to be shown around the operations. Alison's appointment unfortunately coincided with the impact of COVID-19, which placed some restrictions around her induction, however, during the initial couple of months we scheduled a number of one-to-one virtual meetings with the Senior Executive Team, Corporate Development Director, Head of Internal Audit and Risk Assurance, Group Financial Controller, Group Treasury Manager, Business Development Director and the Regulatory Affairs Director.

It is hoped that in the Autumn we will be able to recommence a more traditional induction and enable Alison to complete step four of our induction process.

Induction Process

1 Understanding the Business

Key documentation is provided such as a schedule of Board and Committee dates, Schedule of Matters and Delegation of Authority, Programmes of Business, Articles of Association, and Group Policies and Procedures.

2 Meeting the Management Team

Meet the SET informally and formally.

Meet key management at Head Office and leadership teams at the main sites.

3 Director and Committee Responsibilities

Receive induction/training on Director and Committee responsibilities (if applicable).

Market Abuse Regulations online training course.

4 Visit the Business

Visit a key site for each function (PDRA, Manufacturing, Sales and Marketing, and Head Office).

Composition, Succession and Evaluation continued

Alison Platt's Induction

"Having joined the Dechra Board formally at the beginning of March this year, the comprehensive induction programme the Company Secretary and the team constructed for me was somewhat frustrated by the lockdown enforced by COVID-19. As the business focused on keeping operations going safely, it was terrific that colleagues all across the business shifted rapidly to

home working, and the use of digital platforms to ensure the start of my education in Dechra could begin undeterred. My experience has been that this is an additional and valuable period of learning rather

than a substitute for walking the patch and meeting the wider teams in person. I genuinely believe that I will be better placed now to make use of that time when it comes. I am also immensely grateful for the additional time I've had to capture learnings – whether that's technical terminology, regulatory frameworks or business processes – and indeed to check back with colleagues that I have fully understood. I have no doubt that would have been harder had roads, rail and planes been involved.

As a result of the more than 20 hours of virtual meetings I have had with our leaders across the Dechra Group I am incredibly impressed with the depth of experience and commitment that each carries. The robust health of the business is no doubt a consequence of that created over many years and I look forward to building on my start."

Board Succession Planning

Non-Executive Directors

The Committee has over the last two years factored diversity into its Non-Executive Directors succession plans. Following the appointment of Lisa Bright in February 2019 and Alison Platt in March 2020, the Board gender diversity has increased to the threshold recommended by the Hampton Alexander Review.

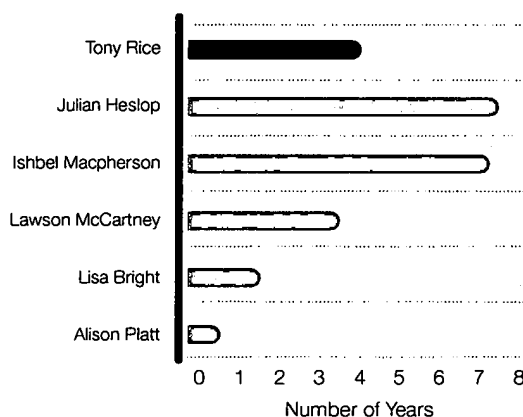
As reported in the previous year's Committee report, its review in the 2019 financial year highlighted that over the forthcoming two years at least one Non-Executive Director will need to be recruited in order to have orderly succession.

During the year, an independent recruitment consultancy, Robert Walters, was retained. Robert Walters was provided with a role description, detailing the skills (both cognitive and personal strengths) and experience required for the role of Audit Committee Chairman. The Committee, in drafting the role description took into account the challenges and opportunities facing the Group and what skills and expertise was needed. In particular, it was determined that the individual should have relevant financial experience in an international company. In addition, they were required to have a broad business experience and be a good fit with the Culture and Values of the Company.

Robert Walters were previously retained in relation to the appointment of the DVP EU Finance Director following the promotion of Paul Sandland to Chief Financial Officer and has no other connection with the Company or individual Directors.

To assist Robert Walters with the understanding of the requirements of the role, they met with the Group HR Director.

Non-Executive Directors' Tenure as at 30 June 2020



SET Succession Planning (including Executive Directors) and Leadership Needs of the Group

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

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

To assist with this, the Group HR Director presents to the Committee on the Group's succession planning annually. The Committee discusses the succession plan for the SET, which includes the Executive Directors and the Non-Executive Board. Plans are in place for sudden, unforeseen absences, for medium term orderly succession and for longer term succession as well as supporting any significant acquisitions that require full time Dechra leadership during the integration phase. For each SET member, we have either identified an internal candidate who is in the pipeline for succession, or we accept that for some roles, where we have no successor we will need to approach the open market. In these cases, we aim to build strength and depth in the team below to allow a smooth transition in the event of bringing a new leader on board where we would benefit from bringing new experience into the team. In addition, the Committee has reviewed the emergency succession planning, which clearly identified individuals capable of covering key management roles on an interim basis (whether this be due to an unanticipated absence, secondment of a key resource into a different role for a defined period or assume a key role until a successor can be identified and appointed). All these individuals will receive, or have received, the necessary coaching to assist them in obtaining the required skills to provide any critical support when needed.

This planning has facilitated the Group Supply Chain and Procurement Director for Dechra Pharmaceuticals Manufacturing & Supply (DPM&S), Milton McCann, being appointed as the Interim Group Manufacturing & Supply Director. We have also accelerated changes planned for 2021 financial year to the DPM&S structure and have appointed a Group Internal Network Director who joined Dechra on 15 June 2020. In addition, an experienced interim candidate was appointed to backfill the Supply Chain Director role.

Furthermore, a forward looking review of the future anticipated shape of the organisation has been undertaken to identify any potential gaps that may emerge, and plans have been outlined to enable the organisation's structure to remain fit for purpose.

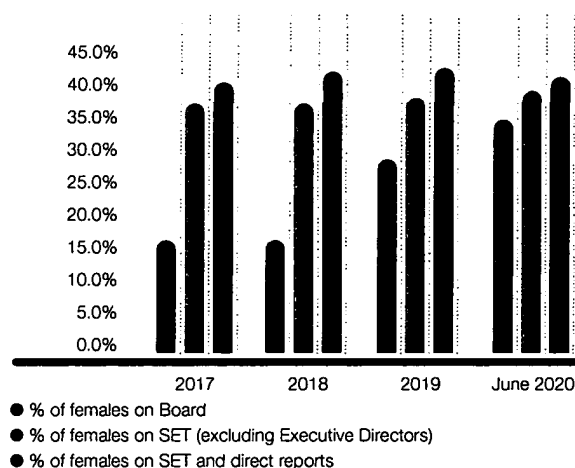
We encourage regular contact between members of the SET and the Board, with all SET members presenting to the Board at least once a year, leading site visits of their respective businesses and attending one-to-one sessions with Non-Executive Directors to discuss specific issues when applicable.

Diversity and Inclusion

The Committee reviews the policy on diversity and its implementation every year and, during 2020 this review took place in February and again in June. The Group recognises that the diversity of teams and an inclusive culture is beneficial for the Dechra business, its processes, and its performance. Our objective is to continue to be a high performing business driven by highly skilled and committed teams. In the market in which we compete, we believe that the diversity of our workforce contributes significantly to developing strong relationships with veterinarians, a significant and growing proportion of which are women, in the many markets and cultures in which we trade.

The Board believes that everyone should be recruited and promoted on the basis of their personal ability, contribution and potential. This belief is supported by our employment policies and practices which reflect a culture where people decisions are made solely on the basis of individual capability and potential in relation to the needs of the business practices. The Board is committed to promoting and supporting a culture of fairness, respect and equal opportunity across the Group.

Hampton and Alexander Review



Dechra excludes the Executive Directors from the Senior Management data as per guidance from Hampton Alexander. However, the data includes their direct reports.

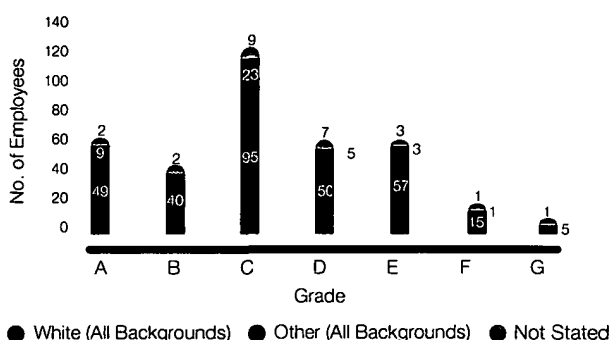
Direct reports will cover employees at various grades of the Group and will cover managers and junior professionals.

Composition, Succession and Evaluation continued

Progress on Diversity Policy

Policy	Progress
Dignity at Work	<p>During the year, a Dignity at Work Policy was launched within the UK followed shortly by a global version. In accordance with the Dechra Values, we believe that our position on diversity and inclusion is key to providing a place of work that is free from bullying and harassment, and which is characterised by respect, collaboration, openness, safety and equality. One of our aims is to promote a climate in which employees feel able to raise complaints of harassment, bullying or discrimination without fear of victimisation.</p> <p>For this reason we have chosen to incorporate the following within our Dignity at Work Policy:</p> <ul style="list-style-type: none"> • Diversity and Inclusion • Bullying and Harassment • Employment of Relatives and Relationships at Work <p>In tandem with this, a comprehensive face to face training programme for line managers was delivered over four days to 44 managers. A further four days had been scheduled for a second cohort, which is now being moved online. The training programme covered some key elements including understanding our policies and procedures, essential managers skills, tackling unacceptable behaviours, having difficult conversations and mental health in the workplace. Similar programmes will follow for our international businesses.</p> <p>We encourage all employees to speak out and report any direct or indirect discrimination, harassment or bullying. This is supported by our Grievance Policy and our How to Raise a Concern Handbook. All reports are investigated and acted upon.</p>
Fair Pay	<p>In the UK, only one of our subsidiaries, Dechra Limited, has to report under the Gender Pay Gap regulation. Dechra Limited employees sit within our UK manufacturing, product development and regulatory affairs businesses.</p> <p>We are pleased to report that as a result of our proactive management, the gender pay gap has reduced from 17.7% in 2017 to 9.2% in 2018 and further again to 7.4% in 2019. This is something that we are looking to continue to build upon as we continue to make Dechra an increasingly attractive place to work. Over the last 12 months in particular, we have focused efforts around our talent development and organisational design, and in particular we have:</p> <ul style="list-style-type: none"> • continued to develop our engineering department leveraging our talent; • created a new role and employed a training co-ordinator to maintain our standards and focus in delivering skills fit for the future; and • reviewed and updated our enhanced parental leave policies.
Applicant Tracking System	<p>We are planning to launch a new applicant tracking system in the forthcoming financial year, with the aim of using the insight to improve our application process and enables us to reach a wider and more diverse pool of talent.</p> <p>The applicant tracking system will allow us to create a baseline report on the levels of recruitment and the pools from which we are attracting our talent. From this baseline we will be able to assess voluntary diversity statistics provided to us by candidates which will allow us to set and assess clear objectives in relation to our diversity agenda and maintain reporting capability on this.</p> <p>In addition, we are aiming to recruit a Group Talent Partner who, in conjunction with the Group Head of HR and Group HR Director, will set and lead the recruitment strategy of our Company, be responsible for maintaining the Group Applicant Tracking System (ATS) and reporting on the KPIs set.</p>

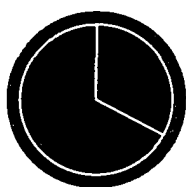
UK Employee Ethnicity by Grade



➔ More details of our actions can be found in the **Corporate Social Responsibility** report on page 56

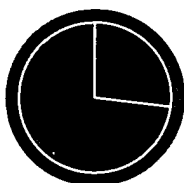
The Board is generally opposed to the idea of stated gender quotas; however, since the 2018 Annual Report it has addressed a low representation of female Directors (14.3%) on the Board, and following the appointment of Alison Platt in March 2020, the female representation at Board level increased to 33%. Female representation below Board level is 27.3% of the Senior Executive Team (including the Executive Directors) and 52% of the overall workforce.

The Board as at 30 June 2020



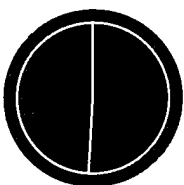
● Female	33%
● Male	67%

Senior Executive Team (including Executive Directors) as at 30 June 2020



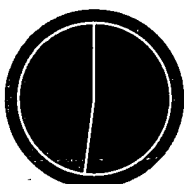
● Female	27%
● Male	73%

Employee at Senior Leadership Level as at 30 June 2020



● Female	51%
● Male	49%

Overall Workforce as at 30 June 2020



● Female	52%
● Male	48%

Evaluation

Annual Evaluation

The Board undertakes an annual evaluation of its performance and that of its Committees to monitor that they remain fit for purpose, details of which can be found on page 104. This year's evaluation was internal.

The Committee's review of the structure, size and composition of the Board can found above on page 97.

Effectiveness of Directors

Following the internal evaluation, which concluded that the Board is dynamic, robust and challenging (further details of which, including the outcomes and actions, are provided on pages 97 and 98 of the Governance Report), the Committee has concluded that each of the Directors continues to perform effectively and demonstrates commitment, not only in respect of their roles and responsibilities, but also in relation to the Group and its shareholders. At the forthcoming Annual General Meeting, Alison Platt, who was appointed to the Board on 1 March 2020, will offer herself for election, and all of the remaining Directors will retire and offer themselves for re-election.

In addition, the Board has evaluated and determined that each Non-Executive Director has sufficient time to meet their Board responsibilities and any proposed new appointments are disclosed to enable the Board to assess whether there are any conflicts of interest or time. The Committee has noted that prior to last year's Annual General Meeting there were some concerns that Lisa Bright was overboarded. Lisa Bright holds an executive director equivalent role at Intercept Pharmaceuticals, Inc. and, including her role at Dechra, two Non-Executive Directorships. Therefore, this is within the best practice limits in relation to overboarding, and the Committee is satisfied that she has sufficient time to meet her Board and Committee responsibilities.

The Chair, at the time of his appointment on 5 May 2016, met the independence criteria as set out in the Code.

Tony Rice

Nomination Committee Chairman
7 September 2020

Composition, Succession and Evaluation continued

Board Evaluation

The Chairman manages the Board and oversees the operation of its Committees with the aim of monitoring that they operate effectively by utilising the diverse range of skills and experience of the various Board members. The effectiveness of the Board is imperative for the success of the Group and the Board undertakes an annual evaluation of its performance and that of its Committees to ensure that they remain fit for purpose. The last external evaluation was in 2018.

The 2019 Internal Board Evaluation

The findings of the internal evaluation were discussed at the June 2019 Board meeting. Overall, the review indicated that the Board operates effectively and is robust and challenging, but noted some areas for improvement. The actions which were taken are shown in the table below:

Action	Progress
Succession Planning	The Board agrees that there is still some work to be undertaken on succession but the open and well informed nature of the dialogue means that the quality of these discussions are good and continue to improve.
Employee Engagement	Lisa attended a meeting of the Works Council in Skipton where she had the opportunity to discuss a range of topics that are key to both the Board and our employees. A follow up meeting was held in July with the Site Director and the HR Business Partner to review what actions had been taken since the initial meeting and how they had been received by the employees, further details of which can be found on page 90.

The 2020 Internal Board Evaluation

Following the external evaluation in 2018, it was agreed to undertake an internal evaluation for the 2020 financial year, focusing on the following areas: (i) Board composition; (ii) strategy review and delivery process; (iii) the format of Board meetings and the decision process; (iv) training and development; (v) the performance of the Board and the individual Directors; (vi) Corporate Governance; (vii) leadership and culture; and (viii) risk assessment.

The internal evaluation process is detailed below and took the format of a questionnaire, which was distributed to all of the Board, with the survey results presented on an anonymous basis. The responses were received in April, and were discussed with the individual Directors. In addition, the Senior Independent Director discussed the performance of the Chairman with the Directors in April and the Chairman in May.

Internal Board Evaluation Process

The process of the Internal Evaluation of the Board and its Committees were as follows:

1 Preparation

The questionnaires were updated to reflect the 2018 Corporate Governance Code requirements.

2 Questionnaire

Questionnaires were made available electronically for online completion and submission. One was in relation to the effectiveness of the Audit Committee and one in relation to the Remuneration and Nomination Committees, and were forwarded to both the members of the Committees and the regular attendees which included Group HR Director, Head of Internal Audit and Risk Assurance and the Company Secretary. The third questionnaire related to the Board and was sent to the Board members only.

3 Interviews

The survey results were presented on an anonymous basis to the Chairman and the Senior Independent Director for discussion with the individual Directors. The Senior Independent Director discussed the performance of the Chairman with the Directors in April and the Chairman in May.

4 Review

A presentation was provided to:

- each of the Committees, to allow them to discuss their effectiveness; and
- the Board in relation to the various findings and suggested actions.

5 Outcomes

Following an initial review of the responses, the Chairman discussed with the Executive and Non-Executive Directors at the June 2020 Board meeting the general themes raised by the survey, and any other survey-related points they wished to discuss.

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

- Succession; and
- Strategy.

Progress made on these action points during the forthcoming year will be reported in next year's Annual Report. The Board has agreed that an external evaluation will be undertaken during the 2021 financial year. The results of the 2021 internal Board evaluation will be reported in next year's Annual Report.

Audit, Risk and Internal Control

Letter from the Audit Committee Chairman

Julian Heslop

Audit Committee Chairman

Dear Shareholder

On behalf of the Board, I am pleased to present this year's Audit Committee (the Committee) report.

During the year, in addition to our regular duties, we focused on the External Audit Engagement Partner Rotation and the impact of COVID-19 on our business and internal control framework.

Committee Membership

We have welcomed Alison Platt to the Committee and look forward to the additional perspective she will bring given her international commercial experience.

External Audit Engagement Partner Rotation

The current External Audit Engagement Partner, Andrew Hammond, was appointed during the 2016 financial year and as such this is his last audit, after which he will stand down in line with the FRC Ethical Standard. During the year, the Board approved the Committee's recommendation with regards to the replacement External Audit Engagement Partner. Further details can be found on page 111.

COVID-19

The global coronavirus pandemic has resulted in disruption and rapid change in how we all live and work. As an essential pharmaceuticals

business the Group has continued to manufacture and supply its products and has rapidly adapted its operational processes to enable employees to work safely to deliver these. The Group has also assessed the changes required to its management and governance processes including financial reporting and internal control. At its April meeting, the Committee reviewed the principal areas of focus and change from a financial reporting and internal control perspective and I am pleased to say that overall our reporting processes remain robust and the Committee believes that our control environment remains strong. The Committee will continue to keep this closely under review as circumstances change.

FRC

During the year, the Company received a letter from the Financial Reporting Council (FRC) in relation to its review of the Company's Annual Report and Accounts for the year ended 30 June 2019. I am pleased to report that based on their review, there were no questions or queries that they wish to raise at this stage. They did note a number of matters where they believe that the users of the accounts would potentially benefit from improvements to our existing disclosures and these have been considered in the preparation of our 2020 Annual Report and Accounts.

Annual Report 2020

The following report sets out how the Committee has complied with the principles of the Corporate Governance Code 2018 and specifically provisions 25 and 26, and assisted the Board with its compliance in respect of provisions 24, and 27 to 31.

The judgements and factors that the Committee considered in reviewing the Annual Report and Accounts for 2020 (2020 Annual Report) are set out in its report on pages 107 and 108. The report outlines significant accounting matters which received particular focus during the period. It explains why the issues were considered significant and how the Committee satisfied itself on the validity of the judgements made.

The Committee undertook a review of the independence and effectiveness of both the external auditor and the internal audit function, and concluded that they were both independent, objective and effective. The details of these reviews can be found on page 110.

Finally, we specifically reviewed, at the request of the Board, whether the 2020 Annual Report was fair, balanced and understandable and concluded that it was. The basis supporting our conclusion is set out on page 109.

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

Julian Heslop

Audit Committee Chairman
7 September 2020



4

Audit Committee Meetings Held

Areas of Focus this Year

- External Audit Engagement Partner Rotation
- Impact of COVID-19 on the internal controls and viability of the Company
- Accounting Treatment of R&D Projects

Committee Membership and Attendance

Julian Heslop	4	Lisa Bright	4
Joined: 1 January 2013	4	Joined: 1 February 2019	4
Ishbel Macpherson	4	Alison Platt	1
Joined: 1 February 2013	4	Joined: 1 March 2020	1
Lawson Macartney	4		
Joined: 1 December 2016	4		

Audit, Risk and Internal Control continued

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

Purpose

The Committee's key role is to review and report to the Board on financial reporting and internal financial control effectiveness, and to monitor the effectiveness of the external audit process and internal audit function.

Membership, Meetings and Attendance

The membership of the Committee, together with appointment dates and attendance at meetings, are detailed on page 105. Alison Platt joined the Committee on her appointment to the Board in March 2020. All Committee members are Non-Executive Directors.

The Board considers that all members of the Committee are independent and have competencies relevant to the sector in which the Company operates. Julian Heslop has recent and relevant financial experience as a result of his financial background and qualification, and Ishbel Macpherson, also brings financial experience to the Committee following her career as an Investment Banker. Alison Platt provides international commercial experience, and Lawson Macartney and Lisa Bright provide product development and the commercialisation of pharmaceuticals experience which support the Committee in meeting its objectives. The biographies of all Committee members are detailed on page 85.

The Company Secretary attends each meeting and acts as its secretary, assisting the Chairman in circulating all papers prior to each meeting in a timely manner and providing advice on all governance related matters. Other members of the Board normally attend each meeting together with the PricewaterhouseCoopers LLP (PwC) External Audit Engagement Partner, the Group Financial Controller and the Head of Internal Audit and Risk Assurance. In addition, the Committee Chairman meets with the Chief Financial Officer, the Head of Internal Audit and Risk Assurance and the External Audit Engagement Partner outside of the Committee meetings in order to understand fully the key topics to enable these subjects to be discussed meaningfully at the meetings.

The Committee usually meets with the external and internal auditors without management being present, after each scheduled meeting, to discuss their respective areas and any issues arising from their audits.

The Committee provides a report to the Board on its activities at the Board's next scheduled meeting.

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

Effectiveness of the Committee

The Committee's performance was evaluated as part of the 2020 Board and Committee Internal Evaluation (further details of which can be found on page 104 of the Governance Report). The Committee considered the results of the evaluation and it was agreed that the Committee remained effective. The structure and content of the papers and quality of discussions held gave the Committee further assurance of its effectiveness, as well as the level of challenge of the Committee with management, external auditors and the internal audit function.

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's website at www.dechra.com. The Board reviewed the Committee's terms of reference at the December 2019 meeting and these were updated to include additional wording around going concern, viability statements and reporting, and in relation to the non-audit fee policy in the Annual Report. The main responsibilities are summarised on page 94 of the Governance Report.

Major Activities of the Committee During the Year

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

At each meeting, the Committee reviews the following items routinely:

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

The table below shows the other key areas of the Committee activities:

Purpose and Function (see page 106)	<ul style="list-style-type: none"> Review of the Committee's terms of reference FRC 2018/2019 Annual Report Key Matter Letter 	<ul style="list-style-type: none"> Review of the effectiveness of the Committee
Financial and Narrative Reporting (see pages 107 to 109)	<ul style="list-style-type: none"> Review and approval of the Accounting Policy amendments due to the adoption of IFRS 16 'Leases' Review of the impact of IFRIC 23 'Uncertainty over income tax treatments' Review of the Accounting Treatment of R&D Projects Review of year end accounting treatment for acquisitions, non-underlying items and new accounting standards Review and endorsement of key judgements made by management in determining half-year and full year results Review of the Group's Half-Yearly Report and supporting papers Consideration of the Half-Year Review Memorandum prepared by the external auditor Review of the dividend policy and interim and final dividend proposals 	<ul style="list-style-type: none"> Review of the Group's preliminary statement, draft Annual Report (including the Audit Committee Report) for the year ended 30 June 2020 and management presentation to investors Consideration of the Audit Memorandum prepared by the external auditor, including: <ul style="list-style-type: none"> review of accounting treatment of non-underlying items assessment of acquired intangible assets and goodwill including impairment assessments undertaken commentary on the general control environment across the Group Review of viability statement process Review and commend the going concern and viability statements Fair, balanced and understandable recommendation of the Annual Report
Internal Controls and Risk Management (see page 109)	<ul style="list-style-type: none"> Review of Anti-Bribery and Anti-Corruption (ABC) Policy ABC and Sanction compliance update Half-year and full year review of internal financial controls Review of tax strategy and policy framework Review of treasury policy and practice 	<ul style="list-style-type: none"> General Data Protection Regulation (GDPR) compliance update Review and approval of the internal control and risk management statements
Internal Audit (see pages 110)	<ul style="list-style-type: none"> Review of the annual Internal Audit Plan and effectiveness of Internal Audit 	<ul style="list-style-type: none"> Review of Internal Audit Charter
External Audit (see pages 110 and 111)	<ul style="list-style-type: none"> Review and approval of PwC Half-Yearly review plan Review and approval of PwC full year external audit strategy (including timetable, risk assessment, materiality, scope and fees) External Audit Engagement Partner Rotation Review of findings from the external audit 	<ul style="list-style-type: none"> Review of the external audit effectiveness Review of external auditor's independence and level of non-audit fees Review of the non-audit fee policy Discussion in relation to the Company's expectations of the external auditor and audit process

Financial and Narrative Reporting

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

Financial Judgements

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

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

Audit, Risk and Internal Control continued

The key matters reviewed are shown in the table below:

Significant risks considered by the Committee in relation to the financial statements	Corresponding actions taken by the Committee to address the issues
Review of the carrying value of intangible assets and goodwill of £692.2 million, which represents 55.9% of total Group assets.	The Committee reviewed management's process for reviewing and testing goodwill and other intangible assets for potential impairment. In respect of assets not subject to amortisation, it reviewed the papers provided by management and noted the headroom between the value in use and the carrying value of goodwill. In addition, it considered the ongoing viability of capitalised R&D projects compared to their carrying value. Finally, it reviewed the process adopted by management to review amortised assets for impairment. It endorsed management's conclusion that no impairment of these assets had taken place. The Committee considered PwC's report on these matters.
Review of the remeasurement of the intangibles and associated contingent consideration for the licensing transactions, which were remeasured during the year.	The Committee reviewed the accounting basis of the adjustments which supported the remeasurement and considered the appropriateness of the accounting treatment.
Valuation of the acquired intangible assets and goodwill acquired during business combinations in the year, which total £21.6 million. Valuation and accounting for the acquired commercial licensing agreement intangibles of £46.2 million together with the related deferred consideration.	The Committee reviewed the calculations and assumptions provided by management and third party experts which support the valuation of these acquired assets and these valuations were assessed for completeness. The Committee reviewed the useful economic lives of the identifiable intangible assets and the future growth rate assumptions applied in the valuations.
Review of the corporate tax rate for the year being a charge of 17.1% (20.6% on underlying operations).	The Committee discussed the key risks in respect of corporate tax and reviewed that appropriate controls were in place to confirm that taxation calculations were not materially misstated. Areas where significant judgements, such as uncertain tax positions, had been applied were reviewed and challenged and external audit work and conclusions were considered.
In order to assist investors with a better understanding of the underlying performance of the business, management present within the financial statements figures for underlying profit and earnings. These measures are reconciled to the figures provided in the financial statements and exclude items such as impairment and amortisation of acquired intangible assets and related deferred consideration, acquisition costs, manufacturing rationalisation 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 the previous year's figures. It also sought confirmation from the external auditor, PwC, that they were satisfied that the application of the accounting policy relating to this treatment was appropriate. The Committee also reviewed any material one-off income and costs within the underlying results, and required that these were clearly disclosed within the financial statements and notes.

Going Concern and Viability Statements

The Committee reviewed the Group's going concern and viability statements set out on pages 33 and 77 of the Strategic Report. In considering the viability statement the Committee paid particular attention to the robustness of the stress testing scenarios, the cash flows forecast by the business and the committed bank facilities available to the Group. The Committee agreed that the process be amended this financial year to disclose COVID-19 as an emerging Group risk and to develop additional viability 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 2020 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance (pages 26 to 33), business model (pages 14 to 16) and strategy (pages 18 to 21).

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; and
- the Executive Directors and Company Secretary providing confirmation that each section of the report has been subject to a rigorous review process built around four tiers:
 - ongoing internal review by members of the Annual Report project team;
 - Board review of a full printed draft copy of the Annual Report with all comments received being considered by the owners of the respective reports;
 - external review by advisers including the external auditor; and
 - a final review by all members of the Senior Executive Team (SET).

The above is an integral part of the process and each tier is invited to comment so that issues could be debated and a final assessment made. The Annual Report project team concluded that the 2020 Annual Report met the fair, balanced and understandable test. In addition, all members of the SET 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 Committee were satisfied that all material matters which had been disclosed in the Senior Executive Team's reports to the Board throughout the year had been adequately reflected in the Annual Report and that the business model, strategy and the Group's performance were correctly reflected and clearly presented.

The external auditor confirmed that in their opinion the Annual Report 2020 was fair, balanced and understandable and their report can be found on pages 144 to 152.

This assessment was carried out by the Committee on 1 September 2020, following which the Committee reported to the Board that it was satisfied that, taken as a whole, the 2020 Annual Report is fair, balanced and understandable.

Internal Controls and Risk Management

The Board retains overall responsibility for the management of the Group's risk management and internal control framework, and has delegated the ongoing monitoring and review of the effectiveness of the Group's internal financial controls to the Committee.

The Group's risk management and internal control processes include:

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

At the April meeting, the Committee conducted an additional review of key internal financial controls to assess if they remain effective and are adequately designed to mitigate the new and heightened risks due to COVID-19, such as increased credit risk (risk of slower payment), and fraud risk (increased due to home working and related process changes). The Committee was provided with management assurances on the key risk areas and concluded that the mitigating controls were appropriate, and that the financial control framework remains effective.

Further details in respect of the Group's risk management and internal control processes are provided on pages 70 and 73 of the Strategic Report, along with the principal risks, controls and mitigating actions and emerging risks. The Board's statements on the effectiveness of these processes are provided on page 88 of the Governance Report.

Review of Policies and Procedures

During the year the Committee undertook the annual review of the Group Tax Policy and Strategy, the Group Treasury Policy and the Anti-Bribery and Anti-Corruption Policy. In addition, the Committee endorsed the adoption of a new accounting policy to comply with IFRS 16 ('Leases') and reviewed the current accounting policy for the treatment of R&D spend and Acquired Intangibles.

The Committee is provided with regular updates on the outcomes of the risk assessments as part of both Anti-Bribery and Anti-Corruption and Sanctions due diligence processes, as well as updates to procedures. During the year, the internal Anti-Bribery and Anti-Corruption e-learning course has been updated and will be rolled out during the forthcoming year across the Group as compulsory training.

Audit, Risk and Internal Control continued

Internal Audit

Function

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 operates a resourcing arrangement with KPMG LLP (KPMG) with a mix of seconded and specialist resources to provide a flexible resource model and access to specialist expertise and language skills in worldwide geographies. A five year plan to develop the Internal Audit function in line with projected business growth has been approved by the Committee and an additional in-house resource will be recruited in the 2021 financial year.

Internal Audit Plan

Internal Audit operates a three year assurance plan which seeks to provide balanced coverage of the Group's material financial, operational and compliance control processes. It consists of a rolling programme of core assurance activities, together with initial control reviews on new acquisitions and reviews of major business process and systems changes. The annual audit plan, which defines the specific assurance projects to be delivered each calendar year, is developed from the three year plan. The annual plan for the year to June 2021 was approved by the Committee in April 2020.

The Internal Audit process was amended due to COVID-19, and all of the audits are currently being delivered virtually where practicable, which has increased the time spent on each audit.

The key areas addressed in this year's audit plan have been:

- Financial: Treasury, Sales Order to Cash, Purchase to Pay and Payroll processes and the baseline financial control framework;
- Operational: Distributor Management, Pricing and Discounting, and Cybersecurity; and
- Compliance: Group policy framework, Promotional compliance processes and the ABC third party programme.

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

Independence and Effectiveness of Internal Audit

During the year, the Committee reviewed the Internal Audit Charter and, based on an assessment of the Internal Auditor's work, agreed that:

- the Internal Audit findings and reporting had well defined rating scales and were clear and concise;
- the function added value and additional assurance;
- Internal Audit constructively challenged management and displayed independence in providing their opinion and recommendations;
- the dual reporting lines into the Chief Financial Officer and Audit Committee Chairman worked well;
- the Internal Audit delivery was based on clearly defined audit plans which adapted when relevant;
- the Internal Audit resources were lean but sufficient at the present time; and
- a clear Internal Audit plan, based on the major risks approved by the Board, was presented annually to and approved by the Committee.

The Committee, based on this, concluded that the Internal Audit function was effective and independent.

External Auditor

Following a competitive tender in 2015, PwC were appointed as the Company's external auditor effective from the 2016 audit. The Company complies with the Competition and Markets Authority Order 2014 relating to audit tendering and the provision of non-audit services.

Audit Plan

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

Independence, Effectiveness and Objectivity of the Audit Process

The Committee conducted a review of the external auditor's independence, effectiveness and objectivity based on:

- the Committee's own assessment of the quality of the audit plan, the rigour of the audit findings and conclusions, the extent to which the External Audit Engagement Partner understands the business and constructively challenges management and the quality and clarity of the technical and governance review 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 fees paid to the external auditor, which were 5.5% (2019: 6.7% in relation to services rendered by PwC).

Responses to the questionnaire have been received from the Finance Leadership Team 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 1 September 2020.

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

Re-Appointment of External Auditor

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

In recommending the re-appointment of the external auditor at the Annual General Meeting, the Committee also takes into account EU guidance and the Competition and Markets Authority (CMA) Order on mandatory audit tendering. Dechra will be required to retender its audit no later than for the 2026 financial year. The Committee will complete this process well before the start of the year preceding the 2026 financial year to maximise the firms able to tender and ensure that the firm selected have sufficient time to meet the required independence regulations.

External Audit Engagement Partner Rotation

In line with the FRC Ethical Standard, the External Audit Engagement Partner is rotated every five years. The current External Audit Engagement Partner, Andrew Hammond, was appointed during the 2016 financial year and consequently will stand down after the completion of the audit of the 2020 financial year. The Audit Committee Chairman, Chairman of the Company, the Chief Executive Officer and Chief Financial Officer interviewed the candidates and provided feedback to the Audit Committee. The Board, on the recommendation of the Audit Committee, has appointed Mark Skedgel to replace Andrew Hammond. Mark has been fully briefed during the audit of the 2020 Annual Report, to facilitate a smooth handover in readiness for the audit of the 2021 financial year.

Non-Audit Assignments

With respect to non-audit services undertaken by the external auditor, the Company's policy is that the provision of such services does not impair their independence or objectivity.

Since May 2018, the policy for the use of the auditors, PwC, for non-audit work, is capped at 30% for the ratio of non-audit fees to the audit fee and the underlying principle is that the external auditor should never be used where another professional firm can provide the same or similar service. This principle is stricter than the FRC guidance as it is expected that non-audit work performed by the external auditor will be limited to the review of the half-year accounts and any other work required to be carried out by the statutory auditor in accordance with legislation. The annual review of the policy was undertaken in April 2020 with no major changes being made.

Should another professional firm be unable to provide the same or similar service, the Committee will continue to approve in advance any non-audit work carried out by the external auditor. In all instances the Committee will assess the qualification, expertise, independence and objectivity of the external auditor prior to granting approval. Safeguards are in place to provide for continued external auditor independence, including the use of separate teams to undertake any non-audit work (other than the review of the Half-Yearly Report) and the audit work. As such, non-audit fee spend is a standing item on the agenda for every Committee meeting.

A summary of audit and non-audit fees in relation to the year is provided in note 7 to the Group's financial statements. This shows that non-audit work carried out by the external auditor represented 5.5% (2019: 6.7%) of the annual audit fee. The 2020 other non-audit fees relate to the engagement of PwC (as statutory auditor) to provide an annual attestation to NOMA (the regulator in Norway), as such the services were permitted under the non-audit fee policy.

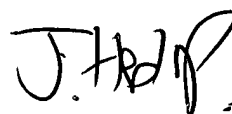
	2020 PwC	2019 PwC	2018 PwC	2017 PwC	2016 PwC
Audit fees including related assurance services (£m)	1.1	0.89	0.80	0.57	0.50
Non-audit fees (£m):					
Review of Half-Yearly Report	0.06	0.04	0.04	0.04	0.04
Other work	0.002	0.002	0.52*	0.05	0.02
Ratio of non-audit fees to audit fees	5.5%	6.7%	70.0%	15.8%	12.0%

* The 2018 Audit Committee Report sets out the reasons for the engagement of PwC.

Julian Heslop

Audit Committee Chairman

7 September 2020



Directors' Remuneration Report

Letter from the Remuneration Committee Chairman

Ishbel Macpherson
Remuneration Committee Chairman

7

Remuneration Committee Meetings Held

Areas of Focus this Year

- 2020 Salary and Bonus review
- Review and approval of grant of share options/awards and vesting of share awards
- Directors' Remuneration Policy 2020
- Wider Workforce Pay Principles
- Chief Financial Officer Remuneration Package
- Global SAYE offer to USA employees

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for the year ended 30 June 2020.

The report is divided into two sections: the Directors' Remuneration Policy, followed by the Annual Report on Remuneration. The Policy sets out our forward looking policy for Directors' remuneration and is a replacement for the Policy approved in 2017, which had 98.88% of votes cast in favour of it. The Annual Report on Remuneration provides details of the amounts earned in respect of the 2020 financial year and how the new Policy, if approved by shareholders, will be implemented in the 2021 financial year.

The new Policy and the Directors' Remuneration Report will be subject to a binding vote and advisory vote respectively, at the 2020 Annual General Meeting.

Our Directors' Remuneration Policy

The new Policy is proposed in the context of the business being significantly larger and more complex now in terms of size, geographic coverage, complexity and scale. Since our Policy was last approved, our market capitalisation has almost doubled from c.£1.4 billion to c.£2.75 billion, and we now have c.1,900 employees globally compared to c.1,300 in 2017. This growth has been driven by the successful execution of our well established and proven four key growth drivers: portfolio focus; pipeline delivery; geographic expansion; and acquisition.

Since the 2017 Policy was approved, acquisitions have included:

- AST Farma and Le Vet (€340 million), which added to our EU product portfolio and strengthened our Dutch market position, providing direct-to-vet relationships;
- Laboratorios Vencofarma do Brasil Ltd (£34.8 million), providing us with a strategically significant presence within the rapidly growing Brazilian and South American markets; and
- Ampharmco LLC (Ampharmco) and its associated holding companies (£24.3 million), which significantly strengthened our manufacturing capabilities for the North American market.

We also finalised a licensing and supply agreement with Akston Biosciences Corporation (Akston) in August 2019 for a patent pending, long acting protein for the treatment of diabetes in dogs and cats that will enhance our position as world leaders in veterinary endocrinology.

Committee Membership and Attendance

Ishbel Macpherson Joined: 1 February 2013	7 7	Lawson Macartney Joined: 1 December 2016	7 7
Tony Rice Joined: 5 May 2016	7 7	Lisa Bright Joined: 1 February 2019	6 7
Julian Heslop Joined: 1 January 2013	7 7	Alison Platt Joined: 1 March 2020	2 2

The 2020 financial year has been another busy one for Dechra operationally and in terms of acquisition activity, with the acquisitions of *Mirataz*, *Ampharmco* and the increased investment in Medical Ethics, and, post year end, the completion of *Osurnia*.

We are aware of the impact of the 2018 UK Corporate Governance Code (the Code) on companies and want to align business requirements to the Code as much as practically possible and take into account market practice and investor expectations. Overall, we consider that the current remuneration framework remains fit for purpose. Therefore, the changes in the new Policy are to provide further alignment with best practice and to allow sufficient flexibility over the next three years.

A summary of the changes is as follows:

Reward element	Current Policy	New Policy
Pension	<ul style="list-style-type: none"> Defined contribution pension or cash allowance. Maximum of 14% of base salary. 	<ul style="list-style-type: none"> The maximum pension contribution for Executive Directors appointed before 1 July 2019 will initially remain at its current level of 14% of salary, but will be aligned with the rate available to the wider workforce by the end of 2022 (this will include enhancing the wider workforce rate alongside a reduction in the rate for Executive Directors). Pension for Executive Directors appointed after 1 July 2019 will be aligned with the wider workforce (currently 4% of base salary).
Annual bonus	<ul style="list-style-type: none"> Maximum opportunity of 100% of salary. Paid in cash. At least 75% of the opportunity to be based on financial measures. 	<ul style="list-style-type: none"> The maximum opportunity, which has been in place since 2009, is increased to 150% of salary. This increase is to provide flexibility and to recognise the increase in the size of the Group and the responsibilities of the Executive Directors. However, the maximum opportunity for financial year 2021 will remain at 100% of salary. If the increased opportunity is applied, we will balance this by requiring up to 33% of the bonus to be deferred into shares for two years. The level of deferral will be set so that the cash paid is not increased by the increase in the opportunity. At least 50% of the total opportunity to be based on financial measures with this change reflecting the increase in the opportunity and to give flexibility over the life of the Policy, although for financial year 2021, 85% of the opportunity will be based on financial measures.
LTIP	<ul style="list-style-type: none"> Maximum opportunity of 200% of salary. Vesting by reference to performance over three years, with awards then subject to a further two year holding period. Threshold vesting: up to 25%. 	<ul style="list-style-type: none"> No change to the maximum opportunity. No change is proposed at the current time to the actual award levels, which are intended to be 200% of salary for Ian Page, 150% of salary for Paul Sandland and 100% of salary for Tony Griffin. The three year performance period and two year holding period will continue to apply. No change is proposed to the performance measures or their weightings.
Shareholding requirements	<ul style="list-style-type: none"> Executive Directors are required to build a shareholding of 200% of salary, and half of any LTIP shares (and, where relevant, recruitment award shares) must be retained until this is achieved. 	<ul style="list-style-type: none"> The same level applies, and the requirement to retain half of the vested shares has been extended to any shares acquired under the deferred bonus. We have introduced a post-employment requirement which applies to LTIP and deferred bonus shares acquired in respect of awards granted after 1 July 2020. For the first year after employment the Executive Director must retain such of those shares as have a value equal to the 'in-service' guideline, and for a further year such of those shares as have a value equal to half of the in-service guideline. We consider that this 'tapered' approach, in the light of the two year holding period for LTIP awards and the introduction of bonus deferral, is a balanced way of achieving alignment with longer term shareholder interests.

Directors' Remuneration Report

continued

Governance Changes

In the new Policy, we have enhanced the discretion to override formulaic outturns for the annual bonus, and introduced such a discretion for the LTIP. The Committee will now have discretion to vary formulaic outturns if they do not reflect the Committee's assessment of overall business performance or if the Committee considers them inappropriate in the context of other relevant factors.

We have also formally included in the new Policy the ability to operate malus and clawback in the event of corporate failure, which in practice has been the case since 2019. The full malus and clawback provisions are described on page 123.

Other Changes

Other changes have been made to the Policy to reflect the changes referred to above (such as increasing the maximum variable remuneration on recruitment from 300% of salary to 350% of salary to reflect the increase in the bonus maximum).

Other minor changes have also been made, such as introducing the ability to pay additional fees to Non-Executive Directors for additional time commitments.

Alignment of Policy with Code

In determining the new Policy, the Committee took into account the principles of clarity, simplicity, risk, predictability, proportionality and alignment to culture, as set out in the Code.

Principle

Clarity: remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce

Our remuneration arrangements are transparent and aligned with our Purpose, Values and strategy and our disclosures are clear to both our shareholders and our employees. Performance targets are set in line with Group budgets and plans and reviewed and tested by the Committee.

Simplicity: remunerations structures should avoid complexity and their rationale and operation should be easy to understand

We believe that our remuneration structures are as simple as they possibly can be. We follow a standard UK market approach to remuneration with established variable incentive schemes that operate on a clear and consistent basis.

Risk: remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated

- Both the annual bonus and LTIP are subject to malus and clawback provisions, and the Committee has discretion to override formulaic outcomes, which may not accurately reflect the underlying performance of the Group.
- LTIP awards are subject to a two year post-vesting holding period, and if a bonus opportunity in excess of 100% of salary is offered deferral into shares will also apply. Each of these factors provides longer term alignment with shareholders' interests.
- The post-employment shareholding requirement will mean that alignment with shareholders' interests continues after an Executive Director has left Dechra.

Predictability: the range of possible values of rewards to individual directors and other limits or discretions should be identified and explained at the time of approving the policy

The range of possible values of rewards and other limits or discretions can be found on page 125, and the Risk section above refers to limits and Committee discretion.

Proportionality: the link between individual awards, the delivery of strategy and the long term performance of the Company should be clear. Outcomes should not reward poor performance

The variable elements of awards are linked to base salary. The performance targets 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 of the Company, so that poor performance cannot be rewarded. In determining the Policy, the Committee was clear that this should drive the right behaviours, reflect our Values and support the Company Purpose and strategy. The Committee will review the remuneration framework regularly so that it continues to support our strategy.

Alignment to Culture: incentive schemes should drive behaviours consistent with Company purpose, values and strategy

Our approach to the implementation of the Policy in the 2021 financial year, including our approach to performance measures for the LTIP awards are described further in this letter.

Remuneration Committee Decisions in 2020

Executive Director Remuneration Decisions

The table below summarises the implementation of the Policy for Executive Directors in respect of the 2020 financial year.

Element	Implementation
Salary	Ian Page's salary was increased by 4.0% (his first salary increase since September 2016) and Tony Griffin's salary was increased by 3.0%, which was broadly in line with the average range of increases awarded to employees throughout the Group. Paul Sandland's salary was set at £300,000 on his appointment as Chief Financial Officer.
Retirement Benefit	Pension contribution of 14% of salary for Ian Page and Tony Griffin, and 4% of salary for Paul Sandland.
Annual Bonus	<p>Maximum opportunity of 100% of base salary.</p> <p>We have delivered underlying profit before tax during the year of £120.1million, an improvement of 1.6% at constant exchange rates (2.3% 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 130, bonuses for the year equal to 28% of salary have been earned by Ian Page, Paul Sandland and Tony Griffin.</p> <p>The Committee considers the level of payout is reflective of the overall performance of the Group in the year and is appropriate.</p> <p>The annual bonus is subject to malus and clawback provisions.</p>
Long Term Incentive Plan	<p>Awards of 200% for Ian Page, and 100% for Tony Griffin and Paul Sandland were granted during the year. Ian Page's and Tony Griffin's awards are subject to a two year holding period. Paul Sandland's award was granted before his appointment to the Board and by reference to his pre-appointment salary and, consistent with other below Board LTIP awards, is not subject to a post-vesting holding period.</p> <p>LTIP awards granted to Ian Page and Tony Griffin on 2 March 2018 are scheduled to vest on 7 September 2020:</p> <ul style="list-style-type: none"> • as to 100% of the TSR element (one third of the total award) reflecting upper quartile performance; and • as to 60.6% of the underlying diluted EPS element (two thirds of the total award) reflecting that the compound annual growth in the underlying diluted EPS at 12.7% was below the maximum threshold of 18%. <p>In aggregate, taking into account the ROCE underpin (reflecting that the ROCE at 15.4% had not fallen below 10.0%), the LTIP awards vested as to 73.7%. The Committee considers the level of payout is reflective of the overall performance of the Group over the three year performance period ended 30 June 2020 and is appropriate.</p> <p>See page 131 for further details.</p> <p>Awards made under the LTIP are subject to malus and clawback provisions.</p>

Directorate Changes

Paul Sandland was appointed as Chief Financial Officer on 30 October 2019 and his remuneration arrangements were a base salary of £300,000, a bonus entitlement of up to 100% of salary, a maximum LTIP award of up to 150% of salary (although the award in respect of financial year 2020 was at the level of 100% of salary reflecting that it was granted before his appointment as Chief Financial Officer) and employer pension contribution of 4% of salary. This last element is in alignment with the wider UK workforce and represented a decrease of 8% from the level of contribution to which Paul was previously entitled as a service related benefit for the higher band senior and professional employees within the UK Group.

Directors' Remuneration Report

continued

Performance Conditions for LTIP Awards

As detailed in the Directors' Remuneration Report last year, in setting the EPS growth targets for the 2020 Grant, the Committee recognised that the base year for those awards will include a full year of AST Farma and Le Vet, and reduced the maximum target from 18% to 16% but maintained the minimum target at 8% recognising that significant growth is still forecast. We noted that the Committee would be considering the impact of the Akston licensing agreement on the awards granted on 2 March 2018 (the 2018 Grant) and the awards granted on 26 October 2018 (the 2019 Grant) during the course of this year and that we would disclose any adjustments to the targets for those awards and the Committee rationale in this report. In addition to considering the impact of the Akston agreement, we have also considered how to take account of the *Mirataz* and *Osurnia* acquisitions and the associated share placing. Our approach is summarised below.

Akston

For the 2018 Grant (three year performance period to 30 June 2020), no adjustment to the EPS target was made on the basis that the impact of the Akston deal is not deemed to be significant.

However, for the 2019 Grant (three year performance period to 30 June 2021) and 2020 Grant (three year performance period to 30 June 2022) the impact of the Akston licensing agreement is more relevant (and is expected to be greater than originally anticipated as the Akston agreement now covers a treatment for diabetes in cats in addition to dogs). In order to measure performance on a fair and consistent basis, the Committee is proposing to adjust the final year EPS to reflect the actual R&D costs incurred at the vesting date. This adjustment recognises that these R&D costs were not included in the base year of the performance period and maintains the overall level of stretch in the targets so the targets are not less difficult to satisfy. The Committee believes that this is the right approach as the payments for the development of Akston are lumpy and uncertain as to timing between financial years.

For the 2021 Grant and future years, the Committee is mindful that the base year will have some R&D actual costs from the Akston deal. Therefore the actual R&D costs will be adjusted for both the base year and the year of vesting to enable performance to be measured on a like for like basis.

Acquisitions and Share Placing

We have also considered whether, and if so how, to adjust the targets to take account of the *Mirataz* and *Osurnia* acquisitions and the associated Share Placing. Our intended approach is set out below:

Grant	Performance Period	Original EPS range	Revised EPS range	Rationale
2019	2018/2019–2020/2021	8% to 18%	8% to 19%	The impact of the transactions and Share Placing have been considered in the round to balance the principle of rewarding the management team for making value enhancing acquisitions with the need to measure performance on a fair and consistent basis.
2020	2019/2020–2021/2022	8% to 16%	8% to 17%	

Remuneration Principles for Wider Workforce

The Committee takes into account the general base salary increases for the wider employee population when determining the Executive Directors' pay increases. The Committee also reviews and approves the pay increases awarded to the Senior Executive Team (SET) and approves the Long Term Incentive awards to this group as well as the share options granted to the senior employees below the SET.

During the year, the Committee reviewed and approved the Remuneration Principles for Wider Workforce; this assisted the Committee in its setting of the Directors' Remuneration Policy. Lisa Bright, as the Employee Designated Non-Executive Director, is available to discuss with employees their views on remuneration as part of her engagement process.

We recruit and promote people on the basis of their personal ability, contribution and potential. We are committed to promoting, supporting and maintaining a culture of fairness, respect and equal opportunity for all. We are also committed to fair employment practices and comply with national legal requirements regarding wages and working hours.

Our pay principles, detailed below, support us in attracting, motivating and retaining the key talent required to support the sustainable improvement of global animal health and welfare.

Fair Pay	Equal pay for work of equal value
Market Competitiveness	We aim to remain competitive on compensation in our different marketplaces, whilst maintaining internal integrity
Living Wage	We have set a target to become a real Living Wage Employer* in the UK during the 2021/2022 financial year. Living wages vary by country, but our aim does not. As we continue to grow in countries across the globe, a living wage target is being explored
Stake in the Company	We want to increase the number of employees who are able to hold a stake in the Company through employee share ownership
Reward for Contribution	In addition to base pay, we have a number of different local incentive schemes across the Group

* Defined in the UK by The Living Wage Foundation.

Workforce Remuneration

	Executive Directors	Senior Executive Team	Wider Workforce
Base Salary	Pay rises in line with wider workforce	Increases approved by the Committee	Increases are reviewed by the Committee
Pension	Ian Page and Tony Griffin: 14% of base salary Paul Sandland: 4% of base salary	Between 8% and 12% of base salary dependent on length of service	Between 4% and 12% of base salary dependent on length of service and/or grade*
Bonus	Max. 150% of base salary, currently 100% of base salary Targets: personal (10%), ESG (5%) and financial (85%)	Max. 50% of base salary Targets: financial and personal	All senior managers and professionals Max. 40% of base salary Targets: financial and personal
Long Term Incentive Plan	Max. 200% of base salary Currently 200% for Ian Page, 150% for Paul Sandland and 100% for Tony Griffin. Three year performance period, two year holding period Target: TSR (one third), EPS (two thirds) and ROCE underpin	Max. 100% of base salary Three year performance period Target: TSR, EPS and ROCE underpin	All senior managers and professionals. Discretionary awards Market value options, three year performance period Target: EPS growth 12% above inflation
Sharesave†	£500 per month Three year savings period or two years for ESPP (US)		

* Data provided for UK only

† UK and USA

Gender Pay

We are pleased to report that as a result of our proactive management with regards to our gender pay gap in relation to Dechra Limited (who employ 67% of our UK employees), the gap has reduced from 17.7% in 2017 to 9.2% in 2018 and further again to 7.4% in 2019, it is something that we are looking to build upon as we continue to make Dechra an increasingly attractive place to work.

COVID-19

We have not furloughed any employees, nor have we taken financial support from any government body, as we believe that the Company will remain financially sound in the immediate future. As an ethical, values led business, Dechra aims to play its part in stemming the spread and impact of COVID-19, and we will continue to explore additional opportunities to support employees, customers and partners across the globe during this challenging time.

Our front line workers, in areas such as production, logistics and our laboratory teams, continued to work on site to make sure that the business remained functional, whilst employees that could work from home did so. In recognition of this, we awarded our front line workers a special payment 'the COVID award' which was paid in June 2020.

Global SAYE















The Committee recognises the benefits of employee share ownership and, following shareholder approval at the Annual General Meeting in October 2018, an initial offer to our USA employees was made in October 2019. We are pleased to report that the take up rate was 52%. We had proposed to launch in the other territories in September 2020, however, in light of COVID-19, we have decided to postpone this until September 2021.

Directors' Remuneration Report continued

Remuneration Philosophy

The Link between our Directors' Remuneration Policy and our Strategy

The table below describes how certain remuneration elements are linked to our strategy.

Remuneration Element	Strategic Growth Driver and Enabler	Link to our Key Performance Indicators
Annual Bonus Our annual bonus incentivises the delivery of the long term strategy through the achievement of short term objectives. 85% of the opportunity (for financial year 2021, previously 90%) is based on a stretching profit target which requires performance above budget and market expectations to trigger the payment of a maximum bonus. 10% of the opportunity is based on the achievement of personal objectives which reflect the priorities of the business, achievement of which is necessary to deliver the longer term strategy. For financial year 2021, 5% of the opportunity is based on ESG measures.	     	Sales Growth Strong sales performance is required to maximise profit
Long Term Incentive Plan The LTIP is designed to reward the generation of long term value for shareholders. Performance measures reflect our long term objectives including sustainable profit growth and the enhancement of shareholder value. Awards are based on growth in EPS and the delivery of shareholder returns. For the 2020 and 2021 financial year awards, the weightings are two thirds EPS and one third total shareholder return. The application of a ROCE underpin focuses Executives on using capital efficiently and appropriately to allow the business to capitalise on growth opportunities in new territories and markets whilst maintaining returns. The post vesting holding period aligns management with the long term interests of shareholders and the delivery of sustained performance. The performance conditions for LTIP awards made in respect of the year ending 30 June 2020 and future years include discretion to override formulaic outcomes.	       	Underlying Diluted EPS Growth Return on Capital Employed New Product Sales This measure encourages innovation, growth and sustainability

Forward Looking

Subject to shareholder approval of the Policy at the 2020 Annual General Meeting, we will apply it in the 2021 financial year. More information is given on page 137, and we have summarised key aspects below.

- **Salary:** Executive Directors' salaries are usually reviewed in September. However, we have decided to postpone the next review until later in the 2021 financial year, which will allow the Committee time to review any impact to the business in the forthcoming year due to COVID-19. It is planned that any increases to Executive Directors' salaries will be in line with the range of any increases proposed for the wider workforce.
- **Bonus:** The maximum bonus opportunity for 2021 will remain at 100% of salary, consistent with the existing Policy. The bonus will be based on a mix of stretching underlying profit before tax targets (reduced from 90% to 85% of the opportunity), personal objectives (10% of the opportunity) and a new ESG measure (5% of the opportunity). For Tony Griffin, half of the opportunity based on profit (i.e. up to 42.5% of salary) will be assessed by reference to the profit of Dechra Veterinary Products EU, reflecting his responsibility for that part of our business, and the other half of the profit based opportunity by reference to Group profit in line with the other Executive Directors, and so that a significant part of the profit based opportunity is aligned with the shareholder experience in respect of overall Group performance.
- **LTIP:** Awards for the 2021 financial year will be granted at the level of 200% of salary for Ian Page, 150% of salary for Paul Sandland and 100% of salary for Tony Griffin. The awards will be subject to a two year holding period. The performance measures remain as per the grant of LTIP awards made on 6 September 2019, details of which can be found on page 133. The upper target for the EPS performance condition will be 16%.

Executive Director Total Remuneration

Ian Page
2020

2019



	2019	2020
Fixed		
Salary	16.5%	32.3%
Benefits	2.0%	3.7%
Pension	2.3%	4.5%
Performance-linked		
Bonus	11.8%	9.1%
LTIP	67.4%	50.4%

Tony Griffin
2020

2019



	2019	2020
Fixed		
Salary	26.7%	46.5%
Benefits	0.9%	1.3%
Pension	2.9%	4.9%
Performance-linked		
Bonus	19.3%	12.9%
LTIP	50.2%	34.4%

Paul Sandland
2020

	2020
Fixed	
Salary	72.0%
Benefits	5.0%
Pension	2.9%
Performance-linked	
Bonus	20.1%
LTIP	N/A

Shareholder Views

Both the existing and the new Policies are designed to promote long term Group success and to reward the generation of shareholder value. A significant proportion of the remuneration opportunity is linked to the achievement of stretching performance targets.

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

We consulted with shareholders in relation to the new Policy and reflected on the comments received when finalising our proposals.

The Committee and I believe that ongoing dialogue with our major shareholders is of key importance. Should you have any queries in relation to this report, please contact me or the Company Secretary.

Ishbel Macpherson

Remuneration Committee Chairman

7 September 2020

Directors' Remuneration Report continued

Directors' Remuneration Policy

This part of the Directors' Remuneration Report sets out Dechra's Directors' Remuneration Policy which, subject to shareholder approval at the 2020 Annual General Meeting, shall take binding effect from the close of that meeting. The Policy has been determined independently by the Committee.

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	Performance measure
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.	Whilst no formal performance conditions apply, an individual's performance in role is taken into account in determining any salary increase.

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 within the range of salary increases awarded (in percentage of salary terms) to other employees in the Group. However, higher increases may be awarded in appropriate 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 salary set at a level that is lower than the Committee's view of a market salary to allow for growth in the role, in which case larger increases may be awarded to move salary positioning to a market level as the individual gains experience;
- change in size and/or complexity of the Group; and/or
- significant market movement.

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

Element: Retirement Benefits

Purpose and link to strategy

Provide a competitive means of saving to deliver appropriate income in retirement.

Operation	Performance measure
Executive Directors are eligible to participate in defined contribution pension arrangements. In appropriate circumstances, an Executive Director may receive a salary supplement in lieu of contributions to a pension scheme.	Not applicable.

Executive Directors outside the UK may also participate in non-UK pension arrangements (including the defined benefit pension scheme in the Netherlands, benefits under which are based on career average pay).

Maximum opportunity

For Executive Directors appointed on or after 1 July 2019, a Company contribution not exceeding the contribution available to the majority of the Group's workforce (currently 4% of salary).

For Executive Directors appointed before 1 July 2019, 14% of salary. However, the Company contribution will be aligned with the rate available to the wider workforce by the end of 2022 (this will include enhancing the wider UK workforce rate alongside a reduction in the rate for Executive Directors).

A salary supplement may be paid in lieu of some or all of the pension contributions otherwise payable.

Benefits under any non-UK pension arrangement may be provided in accordance with the terms of the applicable scheme.

Element: Benefits**Purpose and link to strategy**

Provided on a market competitive basis.

Operation

The Company provides benefits in line with market practice and includes the use of a fully expensed car (or car allowance), medical cover and life assurance scheme.

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

Performance measure

Not applicable.

Maximum opportunity

Whilst the Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value is set at a level which the Committee considers to be appropriately positioned taking into account relevant market levels based on the nature and location of the role and individual circumstances.

Element: Annual Bonus**Purpose and link to strategy**

The executive bonus scheme rewards Executive Directors for achieving financial and strategic targets in the relevant year by reference to operational targets and individual objectives.

Operation

Targets are reviewed annually and any pay-out is determined by the Committee after the year end based on targets set for the financial period.

The Committee has discretion to amend the pay-out should any formulaic output not reflect the Committee's assessment of overall business performance or if the Committee considers the formulaic outturn is not appropriate in the context of other factors considered by the Committee to be relevant.

If a bonus opportunity in excess of 100% of salary is awarded, up to 33% of any bonus earned will be deferred into shares for a period of two years.

Deferred bonus awards may take the form of nil cost options, conditional awards of shares or such other form as has a similar economic effect.

Additional shares may be delivered in respect of shares subject to deferred bonus awards to reflect the value of dividends paid during the period beginning with the date of grant and ending with the date of release (this payment may assume that dividends had been reinvested in Dechra shares on a cumulative basis).

Recovery provisions apply, as referred to below.

Maximum opportunity

The maximum bonus opportunity for Executive Directors is 150% of base salary.

Performance measure

Operational targets (which may be based on financial or strategic measures) and individual objectives are determined to reflect the Group's strategy.

The personal objectives for the Chief Executive Officer are set by the Chairman. The personal objectives for other Executive Directors are set by the Chief Executive Officer. The personal objectives are reviewed and endorsed by the Committee.

At least 50% of the bonus opportunity is based on financial measures (which may include profit before tax).

Subject to the Committee's discretion to override formulaic outturns, 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 on target performance and 100% of the maximum for the financial element for maximum performance.

Subject to the Committee's discretion to override formulaic outturns, 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.

Directors' Remuneration Report

continued

Element: Long Term Incentive Plan (LTIP)

Purpose and link to strategy

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

Operation

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

The Committee has discretion to vary the formulaic vesting outturn if it considers that the outturn does not reflect the Committee's assessment of performance or is not appropriate in the context of other factors considered by the Committee to be relevant.

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

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

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

Recovery provisions apply, as referred to below.

Maximum opportunity

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

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

Performance measure

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

Subject to the Committee's discretion to override formulaic outturns, awards will vest as to 25% for threshold performance, increasing to 100% for maximum performance.

Element: All Employee Share Plans**Purpose and link to strategy**

Provision of the Save As You Earn Scheme (SAYE), including the Employee Stock Purchase Plan (ESPP) in the United States of America, 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.

Operation

SAYE and ESPP: Tax qualifying monthly savings scheme facilitating the purchase of shares at a discount.

Performance measure

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

Any other all employee share plan would be operated for Executive Directors in accordance with its rules and on the same basis as for other qualifying employees.

Maximum opportunity

The limit on participation and the permitted discount under the SAYE scheme and ESPP will be those set in accordance with the applicable tax legislation from time to time. The limit on participation under and other relevant terms of any other all employee share plan would be determined in accordance with the plan rules (and, where relevant, applicable legislation) and would be the same for the Executive Directors as for other relevant employees.

Recovery Provisions (Malus and Clawback)

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

Malus provisions apply which enable the Committee to determine before the payment of an annual bonus or the vesting of an LTIP award, that the bonus opportunity or LTIP award may be cancelled or reduced.

Clawback provisions apply which enable the Committee to determine for up to two years following the payment of a cash bonus or the vesting of an LTIP award, that the amount of the bonus paid may be recovered (and any deferred bonus award may be reduced or cancelled, or recovery may be applied to it if it has been exercised) and the LTIP award may be cancelled or reduced (if it has not been exercised) or recovery may be applied to it (if it has been exercised).

The malus and clawback provisions may be applied in the event of material misstatement of Dechra's financial statements, serious reputational damage to Dechra, material corporate failure, gross misconduct on the part of the Executive Director, or if an annual bonus award has paid out at a higher level than would have been the case but for a material misstatement or serious reputational damage.

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

Operation of Share Plans

The Committee may amend the terms of awards and options under its share plans in accordance with the plan rules in the event of a variation of Dechra's share capital or a demerger, special dividend or other similar event or otherwise in accordance with the rules of those plans. Awards may be settled, in whole or in part, in cash, although the Committee would only settle an Executive Directors' award in cash in exceptional circumstances, such as where there is a regulatory restriction on the delivery of shares.

Explanation of Performance Metrics

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

Annual Bonus

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

LTIP

The application of EPS and TSR targets to the LTIP aligns management's objectives with those of shareholders for the longer term. LTIP awards are subject to an underpin based on Return on Capital Employed; this ROCE underpin focuses executives on using capital efficiently and appropriately to allow the business to capitalise on growth opportunities whilst maintaining returns.

Directors' Remuneration Report continued

Variation or Substitution of Performance Measures

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

Shareholding Guidelines

To align the interests of Executive Directors with those of shareholders, the Committee has adopted formal shareholding guidelines.

Shareholding Guidelines During Employment

During employment, Executive Directors are required to retain half of any shares acquired under the LTIP, any deferred bonus award and, if relevant, any recruitment award (after sales to cover tax) until such time as their holding has a value equal to 200% of salary.

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

Shareholding Requirement After Employment

The Committee has adopted a post-employment shareholding requirement. Shares are subject to this requirement only if they are acquired from share plan awards (LTIPs, deferred bonus awards and, if relevant, any recruitment award) granted after 1 July 2020. Following employment, an Executive Director must retain:

- for the first year after employment, such of their shares which are subject to the post-employment requirement as have a value for these purposes equal to the shareholding guideline that applies during employment (currently 200% of salary); and
- for the second year after employment, such of those shares as have a value for these purposes equal to 50% of the shareholding guideline that applies during employment,

or in either case and if fewer, all of those shares.

Policy Table for Non-Executive Directors

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

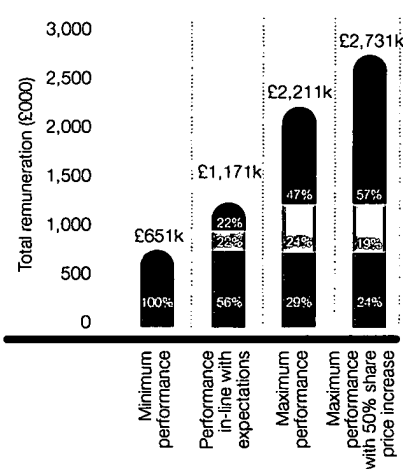
Policy for the Remuneration of Employees More Generally

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

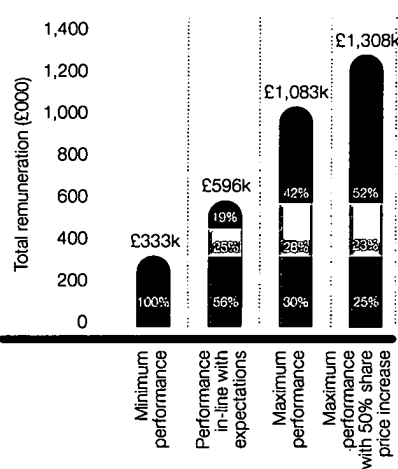
Illustrations of Application of Remuneration Policy

The following charts provide an illustration, for each of the Executive Directors, of the application of the Policy for the 2021 financial year. The charts show the split of remuneration between fixed pay (that is base salary, benefits and employer pension contributions/salary supplement), annual bonus and long term incentive pay on the basis of minimum remuneration, remuneration receivable for performance in line with Dechra's expectations, maximum remuneration, and maximum remuneration also assuming a 50% increase in the Company's share price for the purposes of the LTIP element.

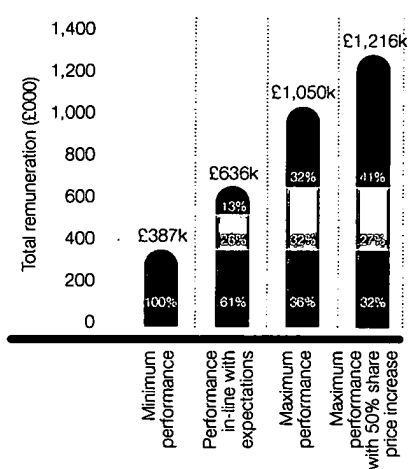
Ian Page



Paul Sandland



Tony Griffin



- Base salary, benefits and pension
- Annual bonus
- LTIP

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

	Annual bonus	LTIP	Fixed pay
Minimum performance	No bonus.	No LTIP vesting.	Base salary (being the latest known salary as at 1 July 2020), employer pension contributions at an assumed rate of 14% (in the case of Ian Page and Tony Griffin) or 4% of salary (in the case of Paul Sandland) on the latest known salary, and benefits as disclosed in the single figure table on page 129 for the 2020 financial year (adjusted, in the case of Paul Sandland, to give an equivalent annual figure).
Performance in line with expectations	Bonus equal to 50% of salary is earned.	LTIP vests as to 25% of the maximum award (50% of salary for Ian Page, 37.5% of salary for Paul Sandland and 25% of salary for Tony Griffin).	
Maximum performance	Bonus equal to 100% of salary is earned.	LTIP vests in full (200% of salary for Ian Page, 150% of salary for Paul Sandland and 100% of salary for Tony Griffin).	
Maximum performance plus share price increase	Bonus equal to 100% of salary is earned.	LTIP vests in full as above, plus an assumed 50% increase in the share price.	

Directors' Remuneration Report

continued

Recruitment Remuneration Policy

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

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

- Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate.
- Pension will only be provided in line with the above Policy.
- The Committee will not offer non-performance related incentive payments (for example a 'guaranteed sign-on bonus').
- Other elements may be included in the following circumstances:
 - an interim appointment being made to fill an Executive Director role on a short term basis;
 - if exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short term basis;
 - if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long term incentive award for that year as there would not be sufficient time to assess performance. Subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis;
 - if the Director will be required to relocate in order to take up the position, it is the Company's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Committee.
- The Committee may also alter the performance measures, performance period, vesting period, holding period and deferral period of the annual bonus or LTIP, subject to the rules of the LTIP, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the next Directors' Remuneration Report.
- The maximum level of variable remuneration which may be granted (excluding 'buyout' awards as referred to below) is 350% of salary.

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

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

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

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

Policy on Service Contracts

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

Name	Commencement date	Notice Period	
		Director	Company
Tony Rice	5 May 2016	3 months	3 months
Ian Page	1 September 2008	6 months	12 months
Paul Sandland	30 October 2019	6 months	12 months
Tony Griffin	1 November 2012	6 months	12 months
Lisa Bright	1 February 2019	3 months	3 months
Julian Heslop	1 January 2013	3 months	3 months
Lawson Macartney	1 December 2016	3 months	3 months
Ishbel Macpherson	1 February 2013	3 months	3 months
Alison Platt	1 March 2020	3 months	3 months

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

Policy on Payment for Loss of Office

Eligibility for the various elements of compensation is set out below:

Provision	Treatment upon loss of office
Payments in Lieu of Notice	The Company has discretion to make a payment in lieu of notice at any time after notice has been given by either the Company or the Director. Such a payment would consist of basic salary for the unexpired period of notice and may also include benefits (including pension contributions or applicable salary supplement) for that period.
Annual Bonus	This will be reviewed on an individual basis and the decision whether or not to award a bonus in full or in part will be dependent upon a number of factors including the circumstances of their departure and their contribution to the business during the bonus period in question. Any bonus payment would typically be pro-rated for time in service to termination and paid at the usual time (although the Committee retains discretion to pay the bonus earlier in appropriate circumstances).
Deferred Bonus Awards	Awards lapse on the date of termination in the event of dismissal for gross misconduct. In other circumstances, awards will ordinarily continue and be released on the ordinary release date, although the Committee retains discretion to release any such award on the date of termination in appropriate circumstances (such as in the event of cessation due to death or ill-health). In either case, the award will vest in full.
LTIP	<p>If an Executive Director ceases employment with the Group before an award under the LTIP vests as a result of ill-health, injury, death, transfer of his employing entity out of the Group or any other reason, at the discretion of the Committee, the award will usually be released on the normal release date, although the Committee has discretion to permit the award to be released on cessation or at some other time (such as following the end of the performance period). In either case, the award will vest to the extent determined by reference to the relevant performance conditions and as reduced to reflect the period of time from the start of the performance period to the date of cessation as a proportion of the performance period.</p> <p>If an Executive Director ceases employment for any reason after the vesting date of an award under the LTIP but before it is released (that is if he ceases employment during the holding period), that award will continue to subsist in accordance with the rules of the LTIP (unless the cessation is due to summary dismissal, in which case the award will lapse) and will ordinarily be released at the normal release date, although the Remuneration Committee has discretion to release the award at the date of cessation. The award will be released to the extent it vested by reference to the performance conditions.</p> <p>If an Executive Director ceases employment for any reason after the release date of an award under the LTIP, that award will continue to subsist in accordance with the rules of the LTIP (unless the cessation is due to summary dismissal, in which case the award will lapse).</p>
Other Payments	<p>In appropriate circumstances, payments may also be made in respect of accrued holiday pay, and outplacement and legal fees.</p> <p>Options under the Company's SAYE scheme, ESPP and any other all employee share plans will vest on cessation in accordance with the plan rules, which do not allow for discretionary treatment.</p>
Change of Control	<p>In the event of a change of control:</p> <ul style="list-style-type: none"> • unvested awards under the LTIP will be released to the extent determined by the Committee taking into account the relevant performance conditions and, unless the Committee determines otherwise, the extent of vesting so determined shall be reduced to reflect the proportion of the relevant performance period that has elapsed; • awards under the LTIP which are in a holding period will be released to the extent vested by reference to the performance conditions; • deferred bonus awards will be released in full; and • options under the SAYE scheme, ESPP and any other all employee share plan will vest on a change of control. <p>In appropriate circumstances, share plan participants may be invited (or required) to exchange their awards over Dechra shares for equivalent awards over shares in the acquiring company.</p>

Directors' Remuneration Report

continued

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

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

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

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

Consideration of Employment Conditions Elsewhere in the Group

The Committee does not formally consult with employees as part of its process when determining Executive Director pay. However, as noted in the Policy table on page 120, the level of salary increases of employees within the wider Group is considered when setting base salary for Executive Directors. The Committee is also kept informed of general decisions made in relation to employee pay and related issues.

Consideration of Shareholders' Views

The Committee believes that ongoing dialogue with major shareholders is of key importance. During the 2020 financial year, the Committee consulted with shareholders in relation to the new Policy, and our proposals have been finalised having regard to feedback received.

Legacy Remuneration Arrangements

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

- before the Policy came into effect (provided that, in the case of any payments agreed on or after 24 October 2014 they are in line with any applicable shareholder approved directors' remuneration policy in force at the time they were agreed or were otherwise approved by shareholders); or
- at a time when the relevant individual was not a Director of the Company (or other person to whom the Policy set out above applies) and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company (or other such person).

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

Ishbel Macpherson

Remuneration Committee Chairman

7 September 2020



2020 Annual Report on Remuneration

The following section provides detail of remuneration earned by the Directors during the year in line with the Directors' Remuneration Policy approved by the shareholders at the Annual General Meeting held on 20 October 2017, along with details of how the Policy to be proposed to the shareholders at the 2020 Annual General Meeting will be applied in the 2021 financial year. The sections of the 2020 Annual Report on Remuneration that are audited by PricewaterhouseCoopers LLP (PwC) are indicated on pages 129 to 135.

Executive Directors' Remuneration (Audited)

Single Total Figure of Remuneration

The table below sets out the total remuneration for each person who has served as an Executive Director in the period ended 30 June 2020. The table shows the remuneration for each such person in respect of the year ended 30 June 2020 and, if they were an Executive Director in the year ended 30 June 2019, their remuneration in that year:

Executive Director	Year	Salaries £000	Benefits £000	Annual Bonus £000	Long Term Incentive £000	Pension £000	Total £000	Total Fixed £000	Total Variable £000
Ian Page	2020	517	59	145	806	72	1,599	648	951
	2019	500	60	360	2,045	70	3,035	630	2,405
Paul Sandland	2020	200	14	56	N/A	8	278	222	56
	2019	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tony Griffin	2020	330	9	92	244	35	710	374	336
	2019	309	10	223	582	34	1,158	353	805
Total 2020	2020	1,047	82	293	1,050	115	2,587	1,244	1,343
Total 2019	2019	809	70	583	2,627	104	4,193	983	3,210

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

- Salaries – this is the cash paid or received in respect of the relevant period.
- Benefits – this represents the taxable value of all benefits paid or received in respect of the relevant period. The benefits provided include the use of a fully expensed car, medical cover and life assurance. SAYE options granted in the year have also been included in the benefits column in respect of any year in which there was a grant. These have been valued using the fair value as per note 27 to the Group's financial statements.
- Annual Bonus – this is the amount of cash bonus paid in respect of the financial year.
- Long Term Incentives – this is the value of any long term incentives vesting where the performance period ended in the relevant period.
- Pension – this is the cash value of the employer contribution to the Group stakeholder personal pension scheme or, in the case of Tony Griffin, defined contribution pension plan, plus the value of any salary supplement paid.
- The 2019 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 £27.085 (being the average market value of a share over the last quarter of the Company's financial period ended on 30 June 2019). This has been restated to show the actual value determined by reference to a price of £27.92 (being the market value of a share on 19 September 2019, the date of vesting).
- 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 1.1345 for 2019 and 1.096 for 2020. His salary was €361,632 for 2020 (reflecting two months at a salary of €352,813 and ten months at a salary of €363,396) and €351,100 for 2019 (reflecting two months at a salary of €342,537 and ten months at a salary of €352,813).
- Paul Sandland was appointed as an Executive Director on 30 October 2019 and the remuneration reported in the single figure table is from this date.

Additional Disclosures in Respect of the Single Figure Table

Salaries and Fees

As disclosed in the Directors' Remuneration Report in the 2019 Annual Report, the Executive Directors' base salaries were reviewed in September 2019, in alignment with the Group's performance development review calendar to provide a clearer link between performance and reward.

Executive Director	2020 Salary	2019 Salary	% increase	Effective from
Ian Page	£520,000	£500,000	4%	1 September 2019
Tony Griffin	€363,396	€352,813	3%	1 September 2019

Both Ian Page's and Tony Griffin's salary increases were broadly in line with the average range of increases awarded to employees in the wider Group. Ian Page had previously notified the Committee that he did not wish to receive a pay increase in 2018 and 2017.

The Committee's approach to Executive Directors' salaries for the year ending 30 June 2021 is summarised on page 137.

Benefits

The Company provides benefits in line with market practice and each Executive Director has the use of a fully expensed car, medical cover and life assurance.

Directors' Remuneration Report

continued

Annual Bonus

The Company operates an annual cash incentive scheme for the Executive Directors. Annual bonuses were awarded by the Committee in respect of the 2020 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 2020 against targets for the 2020 financial year is set out below. The Committee considers that the level of payout is reflective of the overall performance of the Group in the year and is appropriate.

					Bonus earned (percentage of salary)		
					Ian Page	Paul Sandland	Tony Griffin
Underlying profit before tax (up to 90% of salary)	Threshold (10% of salary) £112.7 million	Target (50% of salary) £118.7 million	Maximum (90% of salary) £130.5 million	Actual (at budgeted rates) £113.9 million	18%	18%	18%
Personal Objectives (up to 10% of salary)	Each Executive Director could earn a bonus of up to 10% of salary by reference to the achievement of personal objectives based on key aspects of delivering the Group's strategy (see table below)				10%	10%	10%

The personal objectives of each Executive Director for the year ended 30 June 2020 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.

Link to Strategic			
Director	Enabler	Objective	Performance
Ian Page	Acquisition	Build the pipeline of acquisition opportunities	Completed the acquisition of Ampharmco and the product acquisition of <i>Mirataz</i> and post year end the <i>Osurnia</i> product acquisition
	Manufacturing	Drive improved continuity of supply and oversee management controls	Significant investment in organisation design, capital investments approved and in progress
	Geographical Expansion	Support and maintain close focus on the growth of the International business	Key milestones achieved in the ongoing integration of acquired international businesses
	People	Shape and enhance the Senior Executive's capability to support and deliver future growth Onboard new Chief Financial Officer	New Chief Financial Officer appointed and restructured Senior Executive Team
	People	Sponsor and embed the stakeholder engagement agenda into the organisation	Key milestones achieved, however some disruption to the plan due to COVID-19
Paul Sandland	Finance	Lead re-financing and Bond Placing	Private Placement completed
	IT	Take leadership of Group IT Function	Restructure complete and redeveloping the strategy
	IT	Drive efficiencies through implementation of technology solutions	Hyperion milestones achieved, approved Global Payroll system, roll out commencing 2020
	Manufacturing	Support development of fit for purpose S&OP process	Improvement of on-time delivery and out of stock situation
	Shareholder	Effective engagement with shareholders in results presentations and in support of financing	Significant engagement due to Private Placement and Share Placing
Tony Griffin	Acquisition	Realise the planned synergies for AST Farma and Le Vet acquisitions	Incremental growth of sales and margin as products return to Dechra Sales team from Le Vet distributors
	People	Develop new European Marketing and Sales structures	Research carried out in terms of customer needs and implemented the pilot of Dechra 'Coach' sales team in France
	Customers	Progress the Corporatisation Plan	Conducted research with customers and rolling out new position of key account managers across Europe
	Manufacturing	Support Manufacturing and Supply Chain to ensure improved processes and more robust Sales and Operations planning	Restructured Supply and Demand teams preparing to implement Integrated Business Planning

Long Term Incentive Plan

The LTIP awards granted on 2 March 2018 are due to vest in September 2020. The performance targets for these awards are as follows: one third of the award is subject to a performance condition based on the Company's total shareholder return (TSR) performance relative to the constituent companies of the FTSE 250 index (excluding investment trusts) over the performance period as follows:

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

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

EPS compound annual growth rate (CAGR)	Vesting Percentage
<8% CAGR	0%
8% CAGR	25% of the EPS portion will vest
CAGR between 8% and 18%	Pro rata vesting between 25% and 100%
>18% CAGR	100% of the EPS portion will vest

Both the TSR element and the EPS element are subject to an additional 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 Company's TSR performance was over 59.97% compared with a 25.38% TSR for the upper quartile company in the comparator group (FTSE 250 Index (excluding investment trusts)). Therefore, 100% of the TSR element will vest. In addition, the compound annual growth in the Group's underlying diluted EPS for the performance period was 12.7%. Accordingly, 60.6% of the EPS element will vest. Overall, taking into account that ROCE performance for 2020 was 15.4%, the LTIP awards will vest as to 73.7% of the maximum opportunity.

The Committee considered that the level of vesting reflected the underlying performance of the Group over the period.

In the single figure table on page 129, the value attributable to this award is calculated by multiplying the number of shares in respect of which the award is expected to vest by £27.404 (being the average market value of a share over the last quarter of the Company's financial period ended on 30 June 2020). As part of his award, Ian Page was granted a tax qualifying option over 1,197 shares at an exercise price of £25.06 per share. The option was subject to the same performance conditions as applied to the LTIP award. If the tax qualifying option is exercised at a gain, the number of shares that may be acquired under the LTIP award is reduced by the same value so that the total pre-tax value of the LTIP award is not increased by the grant of the tax qualifying option; accordingly, the tax qualifying option is ignored when calculating the single figure table value.

The March 2018 awards were granted when the value of a share was £25.06 (being the three day average middle market quotation preceding the grant). The following table shows the amount of the award attributable to share price appreciation from that value to £27.404 (being the average market value of a share over the last quarter of the Company's financial period ended on 30 June 2020).

Executive Director	Number of shares in respect of which the Award is expected to vest	Amount of award attributable to share price at grant	Amount attributable to share price appreciation	Total award
		£000	£000	
Ian Page	29,409	737	69	806
Tony Griffin	8,916	223	21	244

Each award is subject to a two year holding period. Other than shares sold to satisfy tax liabilities arising in connection with the acquisition of shares or to fund the exercise price of the tax qualifying option, no shares acquired may be sold before the second anniversary of vesting. The Company has measures in place to prevent the shares from being sold or transferred during the holding period. During the holding period, the Executive Directors, as beneficial owners of the shares, will be entitled to any dividend payments and will be able to vote at any general meeting of the Company.

Directors' Remuneration Report

continued

SAYE

There were no exercises under the SAYE Scheme by Executive Directors during the year.

The aggregate gain made by the Executive Directors on share options and LTIP awards exercised during 2020 was £2,625,303 (2019: £2,897,470).

Pension

Ian Page and Paul Sandland were members of the Dechra Pharmaceuticals PLC Group Stakeholder personal pension scheme throughout the year. Ian Page elected to receive his entire pension contributions as a salary supplement.

Tony Griffin was a member of the Basispensioen, a defined benefit pension plan established in the Netherlands up to 31 December 2018, the transfer value as at this date was €283,000. This was transferred to a defined contribution scheme. From 1 January 2019, Tony Griffin has received contributions to two defined contribution pension schemes (the existing defined contribution pension scheme and the defined contribution pension scheme which replaced the Basispensioen) in the Netherlands in respect of earnings up to €100,000 and a salary supplement in respect of earnings above this amount.

Contributions made by Dechra Pharmaceuticals PLC on behalf of the Executive Directors during the year equated to no more than 14% of pensionable/base salary for both Ian Page and Tony Griffin. The contributions for Ian Page and Tony Griffin reflect long standing contractual entitlements, and not considered excessive in the context of their base salaries. These pension contributions will be aligned with the rate available to the UK wider workforce by the end of 2022 (this will include enhancing the UK wider workforce rate alongside a reduction in the rate for Executive Directors).

Prior to Paul Sandland's appointment as an Executive Director, as a member of the higher band of senior and professional employees within the UK Group with over five years' service, the employer contribution was 12% of his base salary. Following his appointment as an Executive Director, this pension contribution was reduced to 4% which is in line with the majority of our UK workforce.

Non-Executive Directors' Remuneration (Audited)

Single Total Figure of Remuneration

The table below sets out the total remuneration for each person who has served as a Non-Executive Director in the period ended 30 June 2020. The Chairman and the other Non-Executive Directors are paid a fee for their role. The table shows the remuneration for each such person in respect of the year ended 30 June 2020 and the year ended 30 June 2019:

	Additional responsibilities	Base fee £000		Additional fee £000		Total £000	
		2020	2019	2020	2019	2020	2019
Tony Rice	Chairman and Nomination Committee Chair	129	126	5	5	134	131
Ishbel Macpherson	Senior Independent Director and Remuneration Committee Chair	52	50	15	13	67	63
Julian Heslop	Audit Committee Chair	52	50	10	10	62	60
Lawson Macartney		52	50	–	–	52	50
Lisa Bright*	Employee Engagement Designated Non-Executive Director	52	21	5	2	57	23
Alison Platt†		17	–	–	–	17	–
Total		354	297	35	30	389	327

* Lisa Bright was appointed on 1 February 2019.

† Alison Platt was appointed on 1 March 2020.

The Non-Executives are not eligible to participate in any of the Company's share schemes, incentive schemes or pension schemes.

The Senior Independent Director, Employee Engagement Designated Non-Executive Director and the chairmen of the Audit Committee, Nomination Committee and Remuneration Committee receive an additional fee for those roles. As disclosed in the Directors' Remuneration Report in the 2019 Annual Report, it had been agreed that there would be no changes to the additional fees, with the exception of the Remuneration Committee Chair which increased from £8,000 to £10,000. With regards to the base fees it was agreed to increase this as disclosed in the table below.

	2020 Fee £000	2019 Fee £000
Office		
Chairman	130	126
Non-Executive Director	52	50

The Committee's approach to the Chairman's and Non-Executive Directors' fees for the year ending 30 June 2021 is summarised on page 137.

Further Information on Directors' Remuneration

Long Term Incentive Arrangement and Share Scheme awards during the financial year

Long Term Incentive Awards (Audited)

Awards were made under the Dechra 2017 Long Term Incentive Plan on 6 September 2019, as set out in the table below.

	Type of award	Maximum opportunity	Number of shares	Face value at grant*	% of award vesting at threshold	Performance Period
Ian Page	Nil cost option under the LTIP	200% of salary	35,087	£1,039,979	25%	1 July 2019 – 30 June 2022
Paul Sandland	Nil cost option under the LTIP	100% of salary	6,106	£180,982†	25%	1 July 2019 – 30 June 2022
Tony Griffin	Conditional award under the LTIP	100% of salary	10,984	£325,566	25%	1 July 2019 – 30 June 2022

* Based on a share price of £29.64 being the three day average middle market quotation preceding the grant

† Paul Sandland's award was granted before his appointment to the Board and was based on his pre-appointment salary

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

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

Two thirds of each award is subject to a performance condition based on the growth in the Group's underlying diluted EPS over the performance period. As discussed in the letter from the Remuneration Committee Chairman, the EPS targets have been considered in the light of transactions which have taken place in the year. As noted in the letter from the Remuneration Committee Chairman, the EPS for the final year of the performance period (the financial year to 30 June 2022) will be adjusted to reflect actual R&D costs associated with the Akston deal, recognising these were not included in the base year. The targets set out below are those which were originally set; as noted in the letter from the Remuneration Committee Chairman, it is our intention to increase the upper end of the EPS target by 1% to take into account the *Mirataz* and *Osurnia* acquisitions and the associated Share Placing.

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

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. Ian Page's and Tony Griffin's awards are subject to a two year holding period. Other than shares sold to satisfy tax liabilities arising in connection with the acquisition of shares, no shares acquired may be sold before the second anniversary of vesting. Paul Sandland's award was granted before his appointment to the Board and, consistent with other below Board LTIP awards, is not subject to a post-vesting holding period.

SAYE (Audited)

There were no SAYE options granted to Executive Directors during the year ended 30 June 2020.

Payments to Past Directors (Audited)

There were no payments to Past Directors during the period.

Payments for Loss of Office (Audited)

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

Dilution Limits

Awards granted under Company LTIP, Executive Share Option Schemes and SAYE Schemes are met by the issue of new shares when the awards/options are exercised. The Committee monitors the number of shares issued under each of these schemes and their impact on dilution limits. The Company's usage of shares compared to the Investment Association dilution limits as at 30 June 2020 is as follows:

Executive Share Plans	All Share Plans
Limit: 5%	Limit: 10%
Usage: 2.3%	Usage: 3.0%

Directors' Remuneration Report

continued

Shareholdings (Audited)

Executive Directors

In respect of the financial year ended 30 June 2020, the Company's shareholding guidelines required Executive Directors to have acquired and retained half of any shares acquired under the LTIP and, if relevant, any recruitment award (after sales to cover tax) until such time as their holding has a value equal to 200% of salary. Shares which are vested, but which remain subject to a holding period and/or clawback, may count towards the holding requirement on a net of assumed tax basis. The holdings of each person who served as an Executive Director during the period ended 30 June 2020 and their families as at 30 June 2020 are as follows:

Name	Appointment date	Ordinary shares Number	Ordinary shares £000*	% of salary
Ian Page	13 June 1997	625,723	17,798	3,423
Paul Sandland	30 October 2019	5,069	144	48
Tony Griffin	1 November 2012	70,606	2,009	609

* Calculated using the share price as at 30 June 2020.

Executive Directors' Total Interest under Shares Schemes (Audited)

Awards held under the Long Term Incentive Plan (and, in the case of Paul Sandland, market value options) for each person who was a Director during the year ended 30 June 2020 are as follows:

	Award date	Type of award	Option price for market value options (£)	Number of shares as at 1 July 2019	Granted	Lapsed	Exercised	Number as at 30 June 2020	Status	Performance Period
Ian Page	19-Sep-16	LTIP	N/A	73,260	-	-	73,260	-	Vested and exercised in the year	2016-2019
	02-Mar-18	LTIP ¹	N/A	39,904	-	-	-	39,904	Unvested ²	2017-2020
	26-Oct-18	LTIP	N/A	46,168	-	-	-	46,168	Unvested	2018-2021
	06-Sep-19	LTIP	N/A	-	35,087	-	-	35,087	Unvested	2019-2022
Tony Griffin	19-Sep-16	LTIP	N/A	20,858	-	-	20,858	-	Vested and exercised in the year	2016-2019
	02-Mar-18	LTIP	N/A	12,099	-	-	-	12,099	Unvested ²	2017-2020
	26-Oct-18	LTIP	N/A	14,444	-	-	-	14,444	Unvested	2018-2021
	06-Sep-19	LTIP	N/A	-	10,984	-	-	10,984	Unvested	2019-2022
Paul Sandland	15-Sep-15 ³	Approved	£9.75	923	-	-	-	923	Vested	2015-2018
	19-Sep-16 ³	Approved	£13.69	526	-	-	-	526	Vested	2016-2019
	19-Sep-16 ³	Unapproved	£13.69	2,474	-	-	-	2,474	Vested	2016-2019
	02-Mar-18 ³	Approved	£25.06	550	-	-	-	550	Unvested	2017-2020
	02-Mar-18 ³	Unapproved	£25.06	2,450	-	-	-	2,450	Unvested	2017-2020
	26-Oct-18 ³	Unapproved	£21.66	3,000	-	-	-	3,000	Unvested	2018-2021
	06-Sep-19	LTIP	N/A	-	6,106	-	-	6,106	Unvested	2019-2022

1. Ian Page was granted a tax qualifying option over 1,197 shares at an exercise price of £25.06 as part of his LTIP award. This tax qualifying option is linked to the nil cost option such that, at the time of exercise, to the extent there is a gain in the tax qualifying option, the nil cost option will be forfeited to the value of that gain.
2. Will vest on 7 September 2020 as to 73.7%
3. Paul Sandland holds market value options. These options and awards were granted to Paul Sandland prior to his appointment as an Executive Director. These options are subject to a performance condition based on the percentage growth in the adjusted diluted EPS, which must exceed the sum of the percentage growth in RPI and 12%.

Non-Executive Directors (Audited)

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 2020 are as follows:

Name	Appointment date	Ordinary shares number	Ordinary shares £000*	% of base fee
Tony Rice	5 May 2016	20,000	569	438
Ishbel Macpherson	1 February 2013	5,848	166	320
Julian Heslop	1 January 2013	10,000	285	547
Lawson Macartney	1 December 2016	5,880	167	323
Lisa Bright	1 February 2019	–	–	–
Alison Platt	1 March 2020	760	22	42

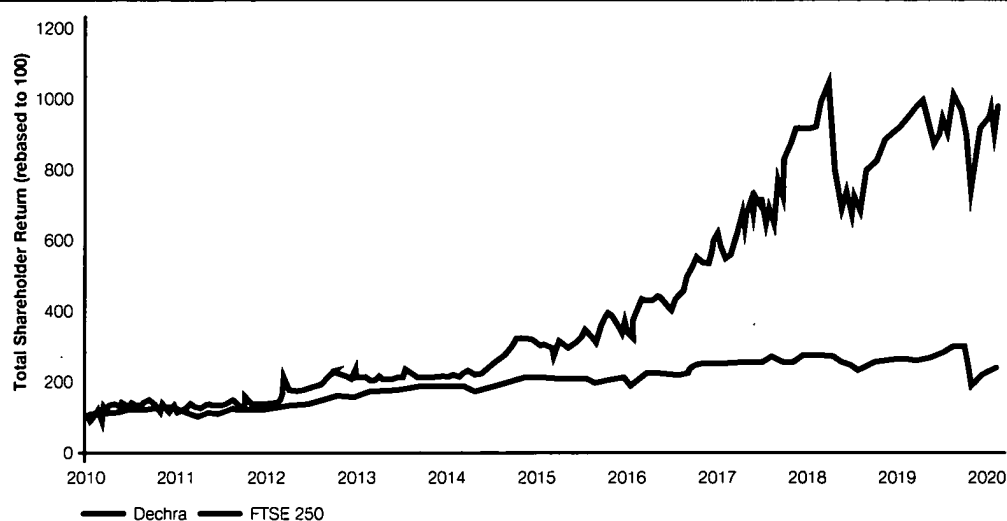
* Calculated using the share price as at 30 June 2020.

There have been no changes in the holdings of the Company's Directors between 30 June and 7 September 2020.

Performance and Chief Executive Remuneration

TSR

This graph shows the TSR performance of the Company over the past ten financial years compared with the TSR over the same period for the FTSE 250 Total Return Index. Throughout the financial year ended 30 June 2020 the Company has been a constituent member of the FTSE 250; for this reason it is considered that the TSR performance of the FTSE 250 Index is the appropriate comparator for this report.



Chief Executive Officer Remuneration for Ten Previous Years

Year ended	Total single figure remuneration £000	Annual bonus payout (% of maximum opportunity)	LTIP vesting (% of maximum number of shares)
30 June 2020	1,599	28	73.7
30 June 2019	3,035	72	100.0
30 June 2018	3,058	76	100.0
30 June 2017	3,420	92	100.0
30 June 2016	2,480	72	96.25
30 June 2015	1,934	80	93.1
30 June 2014	1,589	80	100.0
30 June 2013	1,201	36	100.0
30 June 2012	682	60	0
30 June 2011	984	60	71.1

Directors' Remuneration Report

continued

Annual Percentage Change in Remuneration of Directors and Employees

The table below shows the percentage change in each Director's salary/fees, benefits and bonus between the year ended 30 June 2019 and the year ended 30 June 2020, and the average percentage change in the same remuneration over the same period in respect of the employees of the Company on a full time equivalent basis.

The average employee change has been calculated by reference to the mean of employee pay. Paul Sandland and Alison Platt were appointed to the Board during the year ended 30 June 2020 and, accordingly, they have been excluded from the table below.

	Average employee	Ian Page	Tony Griffin	Tony Rice	Ishbel Macpherson	Julian Heslop	Lawson Macartney	Lisa Bright
Salary/fees	(11.8%)	4%	6.8%	2.3%	3.2%	3.3%	4.0%	3.6%
Taxable benefits	16.3%	(1.7%)	(10.0%)	N/A	N/A	N/A	N/A	N/A
Annual bonus	(47.4%)	(59.7%)	(58.7%)	N/A	N/A	N/A	N/A	N/A

1. Excludes SAYE options granted during the year.
2. Tony Griffin's increase in salary was 3%, however due to exchange rates the increase is artificially inflated.
3. Lisa Bright was appointed to the Board on 1 February 2019. To enable comparison and to provide meaningful reflection of the annual percentage change, her fees for the year ended 30 June 2019 have been annualised.
4. The reduction in the average employee's salary between the 2019 financial year and the 2020 financial year reflects that with effect from 1 July 2019 a number of employees were transferred within the Group to become employees of the Company, such that they are included in the calculation of the average employee's salary for the 2020 financial year but were not included in the average employee's salary for the 2019 financial year.

Chief Executive Officer's Pay Ratio

The table below shows the ratio of the Chief Executive Officer's remuneration for 2020, 2019 and 2018 using the Single Total Figure as disclosed on page 129 to the full time equivalent remuneration of the UK employee whose remuneration was ranked at the 25th percentile, median and 75th percentile. Employees' pay was calculated on the same basis as the Single Total Figure Remuneration except that anyone who joined or left the business part way through the year has been excluded from the calculations along with anybody on reduced pay for illness, maternity, paternity, adoption and shared parental leave.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020	Option A ¹	68:1	53:1	28:1
2019	Option A ¹	139:1	107:1	56:1
2018	Option A ¹	137:1	109:1	58:1

1. The applicable regulations provide for three methods of calculating the pay ratio. We have chosen Option A and have calculated the pay and benefits of all of the Group's UK employees in order to identify the employees at the 25th, median and 75th percentile. We have chosen this approach reflecting that guidance recognises this as the most statistically accurate method. In each year, the employees at the 25th, median and 75th percentile were identified by reference to remuneration at 30 June that year.

	2020 Total pay and benefits (salary) £000	2019 ¹ Total pay and benefits (salary) £000
Chief Executive Officer	1,599	3,035
	(517)	(500)
25th percentile employee	24	22
	(21)	(18)
Median employee	30	28
	(29)	(27)
75th percentile employee	57	54
	(39)	(45)

1. The 2020 figure includes share options and awards, which have been valued by reference to £27.404 (being the average market value of a share over the last quarter of the Company's financial period ended 30 June 2020). SAYE options granted in 2019 and 2020 financial years have also been included in the benefits column in respect of any year in which there was a grant. These have been valued using the fair value as per note 27 to the Group's financial statements.

In 2020, there were a total of 441 UK employees (2019: 380 UK employees), 164 of which have been excluded for the above stated reasons (2019: 87), leaving 277 employees within the 'full pay relevant' data set (2019: 293) for comparison against the Chief Executive Officer. We believe that the final figures detailed above are representative of the majority of the data set.

The above decrease to the Chief Executive Pay Ratio can be explained by the reduction in the amount of LTIP which will vest this year compared to last year (from 100% to 73.7%). Only five employees (including the Chief Executive Officer) have LTIP's which will vest this year and they are all within the 75th percentile group of employees. In addition, the Chief Executive Officer's bonus opportunity is greater and in previous years has resulted in 100% of his salary being awarded whereas this year the bonus will represent 28% of his salary.

Of the employees within the 'full pay relevant' data set, 167 worked in our Manufacturing business which is predominately shop floor workers (2019: 178). During the 2020 financial year, we addressed the pay levels of these employees moving them from minimum wage to national living wage and we also awarded all of our frontline workers with a COVID award. These actions have contributed to the reduction in the ratio this 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 2019 and the year ended 30 June 2020.

	Year ended 30 June 2020 £000	Year ended 30 June 2019 £000	% change
Distributions to shareholders by way of dividend and share buyback	33,300	28,400	17.2%
Overall expenditure on pay	104,000	92,700	12.2%

Implementation of the Directors' Remuneration Policy in the Year Ending 30 June 2021

Subject to approval at the 2020 Annual General Meeting, the Directors' Remuneration Policy outlined on pages 120 to 128 will be implemented in the year ending 30 June 2021, as set out below.

Salary and Fees

We have decided to postpone the next review of Executive Directors' salaries from September 2020 to later in the year, which will allow the Committee time to review any impact COVID-19 may have on the business in the forthcoming year. It is planned that any increase for the Executive Directors' salaries will be in line with the range of any increases proposed for the wider workforce. Consequently it has also been agreed to defer a review of the Non-Executive Directors' base and additional fees until later in the year.

Annual Bonus

As noted in the letter from the Remuneration Committee Chairman, notwithstanding the additional flexibility in the new Policy, bonuses for financial year 2021 will continue at the current level of 100% of salary, with two changes to the structure of the bonus compared to previous years:

- for all Executive Directors, the proportion of the bonus based on underlying profit will be reduced to 85%, with ESG measures accounting for 5% (and personal objectives continuing to make up 10% of the total opportunity); and
- for Tony Griffin, half of his profit element will be based on the underlying profit of Dechra Veterinary Products EU and half will be based on Group underlying profit.

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 130 in respect of bonuses for the Group's 2020 financial year.

LTIP

The Committee proposes that LTIP awards for the year ending 30 June 2021 (the 2021 Grant) will be made at the level of 200% of salary for Ian Page, 150% of salary for Paul Sandland and 100% of salary for Tony Griffin. The performance measures for the 2021 Grant will be based on TSR (one third) and EPS (two thirds), with an underpin based on ROCE. The TSR targets will be the same as for the awards made in the 2020 financial year, details of which can be found on page 133.

The EPS targets for the 2021 Grant are:

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

As with the 2020 Grant, the Committee will retain discretion to adjust the vesting outcome where the formulaic outcome is inappropriate in the context of underlying performance or other factors considered by the Committee to be relevant. The awards will ordinarily be subject to a two year post vesting holding period.

Directors' Remuneration Report

continued

Consideration by the Directors of Matters relating to Directors' Remuneration

Purpose

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. The task of determining and monitoring the remuneration packages for the SET has been delegated to the Committee in relation to the 2020 financial year onwards.

Membership, Meetings and Attendance

Details of each member's attendance at the Committee's meetings is detailed on page 112. The Chief Executive Officer and Group HR Director both attended all meetings held during the financial year in order to assist on matters concerning remuneration of other senior executives within the Group. However, neither was present during the part of the meetings where their own remuneration was discussed.

Effectiveness of Committee

The Committee's performance was evaluated as part of the 2020 Board and Committee Internal Evaluation (further details of which can be found on page 104 of the Corporate Governance Report). The Committee considered the results of the evaluation and it was agreed that the Committee remained effective. Following feedback from the evaluation, the performance measures for the bonus have been reassessed with the view of confirming that they remained stretching and have included an ESG factor to increase the Directors' focus on this area.

Responsibilities

The Committee has its own terms of reference, which are approved by the Board. These are reviewed on an annual basis so that they continue to adhere to best practice. During the 2020 financial year this review took place at the June 2020 meeting and they were amended to reflect the 2018 UK Corporate Governance Code requirements. Copies can be obtained via the Company website at www.dechra.com. The Committee Chairman and the Company Secretary are available to shareholders to discuss the Remuneration Policy. An overview of the Committee's terms of reference is provided on page 94.

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, which were charged on a time and materials basis, were £30,500 for the year ended 30 June 2020. The Committee considers the advice to be objective and independent, and assesses from time to time whether this appointment remains appropriate or should be put out to tender; in doing so, it takes into account the Remuneration Consultants Group Code of Conduct. Deloitte was appointed by the Committee following a competitive process and has provided share scheme advice and general remuneration advice to the Company. During the year Deloitte also performed tax advisory work for Dechra.

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. No Executive Director currently holds external appointments.

Statement of Voting at Previous Annual General Meeting

The Company remains committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. The following table sets out actual voting in respect of the advisory vote on the Directors' Remuneration Report at the Annual General Meeting on 18 October 2019, and the binding vote on the Remuneration Policy at the Company's Annual General Meeting on 20 October 2017:

Resolution	Votes for	% of vote	Votes against	% of vote	Votes withheld
To approve Remuneration Report	72,519,866	99.27	533,633	0.73	672,695
To approve Remuneration Policy	72,932,631	98.88	823,955	1.12	8,619

Ishbel Macpherson

Remuneration Committee Chairman

7 September 2020



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 2020. Certain disclosure requirements, which form part of the Directors' Report, are included elsewhere in this Annual Report as permitted by section 414C of the Companies Act 2006. Therefore, this report should be read in conjunction with the Strategic Report (which includes the Corporate Social Responsibility report) on pages 10 to 77 along with the other sections of the Governance Report. They are incorporated by reference into this Directors' Report and include:

- Details in respect of the Board of Directors;
- Statement of Directors' Responsibilities;
- Review of the Group's business during the year and any likely future developments;
- Details of acquisitions and disposals during the year;
- Going concern, viability statements and risk management;
- Employee involvement and approach to employees with disabilities; and
- Details in respect of Greenhouse Gas Emissions and Streamlined Energy & Carbon Reporting.

Information in relation to financial risk management (including the exposure to price, credit and liquidity risk) and post-balance sheet events can be found in notes 24 and 37 respectively to the Financial Statements.

Section 172 Statement

The disclosures regarding how the Directors have:

- engaged with employees;
- have regard to employee interests and the effect of that regards, including on the principal decision taken by the Company during the financial year; and
- regard to the need to foster business relationships with suppliers, customers and others, and the effect of that regards, including on the principal decisions taken by the Company during the financial year;

can be found on pages 46 and 47.

Amendment of the Articles of Association

The Company's Articles of Association may be amended by a special resolution of its shareholders.

Significant Agreements/Change of Control

As detailed in the Going Concern Statement on page 33, the Group has bank facilities with a group of banks comprising Bank of Ireland (UK) plc, BNP Paribas, Fifth Third Bank, HSBC Bank plc, Lloyds Bank plc replaced by Credit Industriel et Commercial SA (CIC Bank) in July 2019), Raiffeisen Bank International AG and Santander UK plc (the Banks). These bank facilities include a change of control provision whereby a change of control of the Company could result in the withdrawal of these bank facilities.

In January 2020 the Group undertook a Private Placement raising €50.0 million and USD \$100.0 million (under seven and ten year new senior secured notes respectively), which includes a change of control provision whereby a change of control of the Company may result in the Private Placement Notes having to be repaid in full.

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.

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.

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 2020 (2019: 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.

Directors' Report

Other Disclosures continued

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 40 to 43. The expense on this activity for the year ended 30 June 2020 was £28.4 million (2019: £25.1 million) and a further £1.8 million (2019: £1.2 million) was capitalised as development costs.

Results and Dividends

The results for the year and financial position at 30 June 2020 are shown in the Consolidated Income Statement on page 153 and Consolidated Statement of Financial Position on page 155. The Directors are recommending the payment of a final dividend of 24.00 pence per share which, if approved by shareholders, will be paid on 27 November 2020 to shareholders registered at 6 November 2020. The shares will become ex-dividend on 5 November 2020. An interim dividend of 10.29 pence per share was paid on 8 April 2020, making a total dividend for the year of 34.29 pence per share (2019: 31.60 pence per share). The total dividend payment is £37.0 million (2019: £32.5 million).

Share Capital

The issued share capital of the Company for the year is set out in note 25 to the Consolidated Financial Statements. As at the end of the financial year 108,010,960 fully paid ordinary shares were in issue, which included 226,858 ordinary shares issued during the year in connection with the exercise of options under the Company's share option schemes.

5,132,500 new ordinary shares were offered by way of a placing at an issue price of 2600 pence per share, raising gross proceeds of £133.4 million. The placing price of 2600 pence per share was a 5.3% discount to the closing middle market share price on 3 June 2020, being the date of the placing announcement. These new ordinary shares were issued on 8 June 2020 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.

At the Annual General Meeting of the Company held on 18 October 2019, the Company was authorised to purchase up to 10,265,100 of its ordinary shares, representing 10% of the issued share capital of the Company as at 5 September 2019. 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 in the Company and to disapply shareholders' statutory pre-emption rights. Such authorities were granted at the 2019 Annual General Meeting and resolutions to renew these authorities will be proposed at the 2020 Annual General Meeting.

Substantial Interests in Voting Rights

In accordance with the requirements in the Listing Rules and the Disclosure Guidance 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 2020		20 August 2020	
	Aggregate voting rights	Percentage	Aggregate voting rights	Percentage
Fidelity				
Management & Research	9,412,758	8.71	9,324,081	8.63
Standard Life				
Aberdeen	9,034,421	8.36	9,121,920	8.45
BlackRock Inc	5,394,799	4.99	5,519,202	5.11
The Vanguard				
Group, Inc	4,025,635	3.73	3,985,858	3.69
Royal London				
Mutual Assurance				
Society	3,955,824	3.66	3,950,824	3.66

Auditor


A resolution to re-appoint PricewaterhouseCoopers LLP as external auditor and to authorise the Audit Committee to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

Audit Information

Each of the Directors who held office at the date of the approval of the Directors' Report confirms that, so far as he or she is aware, there is no relevant audit information of which the external auditor is unaware, and each Director has taken all steps that he or she ought to have undertaken as a Director to make himself or herself aware of any relevant audit information and to establish that the external auditor is aware of that information.

The Directors' Report has been approved by the Board and signed on its behalf by:

Melanie Hall
Company Secretary
7 September 2020



Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in Respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group Financial Statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company Financial Statements, subject to any material departures disclosed and explained in the Financial Statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Directors' Confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are set out on pages 82 and 85, confirm that to the best of their knowledge:

1. the Company Financial Statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
2. the Group Financial Statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
3. the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

Signed by order of the Board:

Ian Page

Chief Executive Officer

Paul Sandland

Chief Financial Officer

7 September 2020

Delivering Market-Leading Products for Treating Animals' Welfare Needs

The Group has a wide range of licensed products supporting the equine veterinarian. During the 2020 financial year, we have added three products to our Equine product range with a fourth launched in July 2020.

Tranquinervin, a new equine sedation and premedication. At low doses, acepromazine reduces anxiety, which is beneficial for use in horses prior to shoeing or transportation. At higher dose rates, it is an effective sedative for use in situations like dentistry or handling.

Nerfasin vet, which contains the short acting alpha-2 agonist xylazine, is licensed for both sedation and premedication prior to general anaesthesia.

On 9 July 2020, we announced the first and only equine benzodiazepine licensed for the intravenous co-induction of anaesthesia in horses, Dormazolam. This product works in synergy with other induction agents to provide an extended duration of anaesthesia without adversely affecting the quality of recovery. It has been introduced as part of Dechra's extensive equine anaesthesia solutions range.

Additionally, following the acquisition of Le Vet, Dechra has taken over the distribution of Dilaterol. Dilaterol is an oral syrup indicated to treat respiratory disease in horses. It causes intense bronchodilation, inhibits histamine release and increases ciliary mucous clearance, and can be used as a front line or adjuvant therapy.

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Independent Auditors' Report to the Members of Dechra Pharmaceuticals PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- Dechra Pharmaceuticals PLC's Consolidated 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 2020 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Consolidated and Company Statements of Financial Position as at 30 June 2020; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, and the Consolidated and Company Statement of Changes in Shareholders' Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

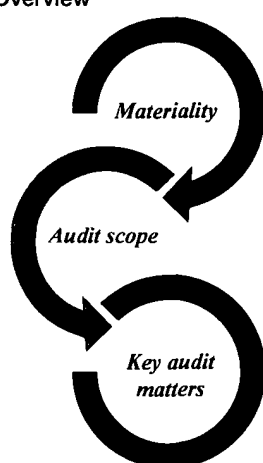
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 July 2019 to 30 June 2020.

Our audit approach

Overview



- Overall Group materiality: £3.8 million (2019: £3.8 million), based on 3% of underlying operating profit.
- Overall Company materiality: £3.1 million (2019: £2.4 million), based on 0.5% of net assets.
- Following our assessment of the risks of material misstatement of the Group financial statements we performed audits of the complete financial information of 22 reporting units.
- In addition the Group engagement team audited the Company and certain centralised functions, including those covering Group treasury operations, corporate taxation, and goodwill and intangible asset impairment assessments.
- The components on which audits of the complete financial information and centralised work was performed accounted for 90% of Group revenue, 82% of Group underlying operating profit and 84% of Group profit before tax.
- As part of the supervision process, the Group engagement team have interacted with all component teams. These interactions have included formal written instructions, regular meetings and review of selected working papers. In addition the Group engagement team are also directly responsible for the performance of the audits of all in scope UK components.

Our assessment of the risk of material misstatement also informed our views of the areas of particular focus of our work which are listed below:

- Acquisition accounting (Group);
- Impairment of intangible assets (Group);
- Licensing agreements and associated contingent considerations (Group);
- Taxation (Group); and
- Consideration of the impact of Covid-19 (Group).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing rules, Tax legislation, Employment regulation, Health and Safety legislation, and other legislation specific to the industries in which the Group operates (including Medicines & Healthcare products Regulatory Agency and U.S. Food & Drug Administration), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure to manipulate the financial performance of the business, and management bias in accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management, internal audit and the Group's legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Consideration of any changes to the control environment as a result of Covid-19;
- Review of internal audit reports;
- Reading key correspondence with regulatory authorities;
- Enquiries with component auditors;
- Identifying and testing unusual journal entries which increase revenue or reduce expenditure to manipulate the financial performance of the business;
- Consideration of the policy for the recognition of revenue and performed substantive testing to ensure compliance with this policy, namely in respect of the cut-off of revenue recognised in Dechra Veterinary Products NA; and
- Assessing key judgements and estimates made by management for evidence of inappropriate bias. Key judgements and estimates include acquisition accounting, carrying value and impairment of intangible assets, licensing agreements and associated contingent considerations and uncertain tax positions. Details of our procedures in these areas are included in our key audit matters below.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Independent Auditors' Report to the Members of Dechra Pharmaceuticals PLC

Key audit matter

Acquisition accounting - assessment of the acquisition accounting in respect of the acquisition of Ampharmco LLC, the trade and assets associated with the Mirataz® product portfolio and measurement period adjustments in respect of the acquisition of Dechra Brasil Produtos Veterinarios Ltda (formerly Laboratorios Vencofarma do Brasil Ltda)
(relevant to the Consolidated Financial Statements)

Refer to the Audit Committee Report on page 108, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 158, and note 31 (Acquisitions).

Acquisition of Ampharmco LLC

The Group completed the acquisition of Ampharmco LLC and its associated companies Dragon Fire Holdings LLC and Black Griffin Holdings LLC (collectively Ampharmco), together with its manufacturing site based in Fort Worth, Texas on 28 August 2019.

We focused on this area because the accounting for business combinations including the valuation of the opening balance sheet is inherently judgemental.

IFRS 3 (revised) requires that consideration is given to the existence and measurement of separable identifiable intangible assets that have been acquired as part of each respective acquisition agreement. For the acquisition, significant value has been attributed to the developed technology, in process research and development, and contract manufacturing relationships, 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.

Acquisition of Mirataz®

The Group acquired the trade, assets and worldwide rights to the Mirataz® product portfolio on 16 March 2020.

We focused on this transaction because of the consideration required as to whether or not the trade and assets acquired as part of this transaction actually represented a business in accordance with IFRS 3 (revised). With the Group acquiring the worldwide rights to the product portfolio along with inventory, this was an important consideration.

In respect of this transaction, management has elected to early adopt the 2018 IASB amendments to IFRS 3 that revises the definition of a business. In accordance with this revised standard, management has applied the optional concentration test which has concluded that as substantially all of the fair value of the gross assets acquired is concentrated in a single asset, the worldwide rights to the Mirataz® product portfolio, the acquired assets do not represent a business and therefore the transaction can be accounted for as a trade and asset acquisition.

Measurement period adjustments in respect of Dechra Brasil Produtos Veterinarios Ltda

Following the acquisition of Dechra Brasil Produtos Veterinarios Ltda (formerly Laboratorios Vencofarma do Brasil Ltda) on 17 December 2018, the fair value of assets and liabilities acquired was assessed on a provisional basis in the 2019 Annual Report and Accounts.

During the measurement period management have enacted elections available and contemplated at the acquisition date which enable a tax base to be established in Brazil for certain assets identified on acquisition. This resulted in the derecognition of £7.0m of deferred tax liabilities with a corresponding adjustment to goodwill.

How our audit addressed the key audit matter

Ampharmco LLC

We read the sale and purchase agreement in order to understand the nature of the transaction and ensure that relevant clauses that impact the accounting had been considered by management. Additionally we agreed the consideration paid back to the terms of the sale and purchase agreement and transfer of cash.

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

We obtained the purchase price allocation performed by management's valuation experts and corroborated that the cash flow forecasts supporting the valuation of those intangible assets identified were consistent with those approved by the Board as part of the acquisition process. In addition, we performed look-back tests to assess the accuracy of the Group's forecasts and assumptions, and performed sensitivity analysis over the key assumptions to determine if a reasonable change could have a significant impact over the value recorded.

We engaged our valuation specialists who confirmed that the methodology used to value each intangible asset is in line with expectation. Our valuation specialists also agreed that the discount rates were consistent with those applied by companies of comparable size, geographical spread and within the relevant industry.

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

Additionally, we audited the disclosure note associated with the acquisition to ensure this met the disclosure requirements of IFRS 3 and captured all of the key elements within the purchase agreements.

Overall we have found the accounting for this business combination and related disclosures to be appropriate and consistent with the audit evidence obtained.

Acquisition of Mirataz®

We read the asset purchase agreement in order to understand the nature of the transaction and ensure that relevant clauses that impact the accounting had been considered by management. Additionally we agreed the consideration paid back to the terms of the asset purchase agreement and transfer of cash.

We obtained a copy of management's concentration test performed in accordance with IFRS 3 and challenged whether or not substantially all of the fair value of the gross assets acquired was concentrated in a single asset with reference to the asset purchase agreement and valuation assigned to each asset.

Additionally, we audited the disclosure note associated with the trade and asset acquisition to ensure this met the requirements of each applicable standard.

Overall we found the accounting for this trade and asset acquisition and related disclosures to be appropriate and consistent with the audit evidence obtained.

Measurement period adjustments in respect of Dechra Brasil Produtos Veterinarios Ltda

We read the documents submitted to the Brazilian tax authorities and confirmed that these were sufficient to establish a tax base in Brazil for certain assets identified on acquisition.

We have also corroborated that this has been approved by the Brazilian tax authorities.

We have challenged management whether this election was contemplated and available at the acquisition date, or was considered subsequently. We have corroborated that this was available and contemplated in advance of the acquisition and thus was appropriate to be recognised as a measurement period adjustment.

We have audited the disclosure note associated with this measurement period adjustment to ensure this met the requirements of IFRS 3.

Overall we found the accounting for this business combination and related disclosures to be appropriate and consistent with the audit evidence obtained.

Key audit matter***Impairment of intangible assets – assessment of the carrying value of acquired intangible assets and other relevant assets.***
(relevant to the Consolidated Financial Statements)

Refer to the Audit Committee Report on page 108, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 158, note 12 (Intangible assets) and note 14 (Impairment reviews).

The Directors exercise judgement as to whether impairment triggers, which require a full impairment assessment to be performed, have been identified in relation to intangible assets.

Where a full impairment assessment is required to support the carrying value of the assets held, management have determined appropriate cash generating units and prepared discounted cash flows which include a number of assumptions. The assumption which is deemed to be the most significant in these forecasts is in respect of the future performance of products. The long term growth and discount rate are also considered to be subjective.

How our audit addressed the key audit matter

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

We considered management's determination of the cash generating units for assessing impairment of goodwill and indefinite life intangibles.

We audited management's impairment model and reperformed all calculations within the discounted cash flow. We agreed that the current and future cash flow forecasts used as the basis of the model are consistent with previous performance.

The forecasts used for years 1 and 2 were agreed to approved budgets and growth assumptions were verified to both forecast organic growth and new product introductions.

Valuation specialists were utilised to benchmark, within a reasonable range, the discount rate assumptions to the cost of capital for other comparable companies. We corroborated certain growth rates to economic and industry averages with references to third party data.

We assessed the sufficiency of headroom through the performance of sensitivity analysis on key assumptions, confirming that an impairment is not reasonably possible.

Managements historical forecasting accuracy was also considered across multiple previous years' assessments.

Additionally, we audited the disclosure note associated with the impairment review and confirmed that this was appropriate.

Overall we found the assessment of the carrying value of acquired intangible assets and other relevant assets and associated disclosures to be appropriate and consistent with the evidence obtained.

Licensing agreements and associated contingent considerations – recognition and subsequent remeasurement of acquired intangible assets in respect of licensing agreements.
(relevant to the Consolidated Financial Statements)

Refer to the Audit Committee Report on page 108, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 158, and note 32 (Contingent consideration liabilities).

Mirataz®

The Group acquired the trade, assets and worldwide rights to the Mirataz® product portfolio on 16 March 2020. This was for an initial consideration of \$43.0 million alongside a future royalty payable for a finite period.

Management have concluded that the future royalty payment for a finite period forms part of the consideration for Mirataz® and therefore in accordance with IAS 38, and the Group's accounting policies, has recognised this as contingent consideration with a corresponding increase to the related intangible asset.

The accounting for contingent consideration is inherently judgemental and involves estimation around the timing and quantum of future cash flows alongside the discount rate used.

Remeasurement of existing agreements

During the year, related liabilities in respect of Tri-Solfer®, Injectable solution 1 and Phycor® were reassessed for the timing and quantum of future cash flows along with a reassessment of the discount rate applied. The variability of the timing and quantum of future cash flows, along with the discount rate represent areas of judgement.

Mirataz®

We read the asset purchase agreement to corroborate the terms of the agreement and consideration.

We obtained management's model and reperformed the calculations forming the basis of the valuation.

We obtained external evidence to corroborate the key assumptions underpinning management's cash flow forecasts.

We corroborated that the cash flows used are consistent with those reviewed by the Board as part of the acquisition process. We also performed sensitivity analysis on these cash flow forecasts and the discount rate applied to corroborate that a material misstatement is not possible based on a reasonable change in key assumptions.

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

Remeasurement of existing agreements

We obtained management's model and reperformed the calculations forming the basis of the valuation.

We have assessed and challenged the changes made to the assumptions underpinning the licensing agreements for Tri-Solfer®, Injectable solution 1 and Phycor®. In doing so we corroborated the revised cash flow assumptions to updated forecasts and performed sensitivity analysis to take into consideration reasonably possible alternatives both in terms of quantum and timing.

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

Additionally, for both new agreements and the remeasurement of existing agreements, we audited the disclosure note associated with licensing agreements and associated contingent considerations.

Overall we found the accounting for this licensing agreements, contingent considerations and the related disclosures to be appropriate and consistent with the audit evidence obtained.

Independent Auditors' Report to the Members of Dechra Pharmaceuticals PLC

Key audit matter

Taxation – assessment of uncertain tax positions (relevant to the Consolidated Financial Statements)

Refer to the Audit Committee Report on page 108, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 158, and note 9 (Income taxes).

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

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

How our audit addressed the key audit matter

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

In understanding and evaluating management's judgements, we considered the status of recent and current tax authority audits and enquiries, the outcome of previous claims, judgemental positions taken in tax returns and current year end estimates and developments in the tax environment. These were then considered in the context of the valuation of the uncertain tax position with reference to the appropriateness of valuation technique used in accordance with IFRIC 23, and where based on expected value, the amounts assigned to each probability.

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

Overall we found the assessment of uncertain tax positions and associated disclosures to be appropriate and consistent with the evidence obtained.

Consideration of the impact of Covid-19

(relevant to the Consolidated and Company Financial Statements)

Refer to the Viability statement on page 77 of the Strategic Report and note 1 (b) (Basis of preparation).

The emergence of Coronavirus ('Covid-19') during 2020 has impacted all businesses, both financially and operationally. Whilst the Group has noted an impact of the pandemic, this has been limited compared to other sectors.

Management have performed a detailed assessment of the potential impact of Covid-19, specifically in respect of the preparation of the financial statements on a going concern basis.

In performing their assessment, management have modelled potential downside scenarios, including a severe downside scenario, and have also considered possible mitigating actions which could be taken to provide additional headroom from both a liquidity and covenant compliance perspective.

The outcome of management's assessment is that, in their view, it remains appropriate to prepare the Group and Company financial statements on a going concern basis.

We have evaluated management's base cash flows, including challenging key assumptions being the profile of forecast revenue and anticipated margins.

We checked the integrity of management's models, as well as agreeing underlying data to source documents.

We assessed whether management's mitigating actions are reasonably achievable based on our understanding of the business, including the nature of its cost base.

Finally, we obtained evidence to support disclosures within the financial statements and checked that the disclosures within the Annual Report are consistent with the financial statements and knowledge gained on the audit.

Our conclusion in respect of going concern is included within the "Conclusions relating to going concern" section below.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group is structured along three segments being European Pharmaceuticals, North American Pharmaceuticals and Pharmaceuticals Research and Development, with each division set up to manage operations on both a regional and functional basis, consisting of a number of reporting units.

The Group Financial Statements are a consolidation of 57 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 57 active reporting units we identified 22 which, in our view, required a full audit of their complete financial information in order to ensure that sufficient audit evidence was obtained. The reporting units on which a full audit of their complete financial information was performed accounted for 90% of Group revenue, 82% of underlying operating profit and 84% of profit before tax. Of these reporting units, 3 were considered to be significant components due to their financial significance, being those units located in the USA and Germany.

The Group consolidation, financial statements disclosures and a number of centralised functions were audited by the Group engagement team at the head office. These included, but were not limited to, central procedures on treasury operations, UK and corporate taxation and goodwill and intangible asset impairment assessments. We also performed Group level analytical procedures on all of the remaining out of scope active reporting units to identify any unusual transactions. The Company was also subject to a full scope audit.

Where work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Consolidated Financial Statements. We issued formal written instructions to all component auditors setting out the audit work to be performed by each of them and maintained regular communication with the component auditors throughout the audit cycle. These interactions included attending certain component clearance meetings and holding regular conference calls, as well as reviewing and assessing any matters reported. The Group engagement team also reviewed selected audit working papers for certain component teams.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those locations to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole. We issued formal, written instructions to component auditors setting out the work to be performed by each of them and maintained regular communication throughout the audit cycle. These interactions included attending component clearance video conference calls and holding regular conference calls, as well as reviewing and assessing matters reported.

Due to the current restrictions on travel and social distancing measures, enacted as a response to the global pandemic, the group engagement leader and senior members of the group engagement team used video conferencing to oversee the component auditor work and had video discussions with management of the 22 component locations (in 6 countries) in scope for an audit of their complete financial information. Senior team members also attended, via video conference, the clearance meetings for all components. During the clearance meetings, the findings reported by all component teams were discussed. The Group engagement team also evaluated the sufficiency of the audit evidence obtained through discussions with, and remote review of the audit working papers of, component teams.

Independent Auditors' Report to the Members of Dechra Pharmaceuticals PLC

Materiality

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

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

	Group financial statements	Company financial statements
Overall materiality	£3.8 million (2019: £3.8 million).	£3.1 million (2019: £2.4 million).
How we determined it	3% of underlying operating profit.	0.5% of net assets.
Rationale for benchmark applied	We believe the Group's principal measure of performance and earnings is underlying operating profit. Management uses this measure as it believes that it eliminates material non-operational items that may obscure the key trends and factors in determining the Group's operational performance. Furthermore it is this measure which represents the primary focus for management and key stakeholders.	The Company is the ultimate holding Company of the Dechra Group of Companies and with no trading activity, net assets is considered to be the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £0.02 million and £2.85 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.2 million (Group audit) (2019: £0.2 million) and £0.2 million (Company audit) (2019: £0.2 million), as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report Other Disclosures ('Strategic Report and Directors' Report'), we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 109 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 77 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 109, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 108 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Independent Auditors' Report to the Members of Dechra Pharmaceuticals PLC

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the Directors on 23 October 2015 to audit the financial statements for the year ended 30 June 2016 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 30 June 2016 to 30 June 2020.



Andrew Hammond (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
7 September 2020

Consolidated Income Statement

For the year ended 30 June 2020

		2020	2019				
		Underlying	Non- underlying*	Total	Underlying	Non- underlying*	Total
	Note	£m	(notes 4 & 5) £m	£m	£m	(notes 4 & 5) £m	£m
Revenue	2	515.1	–	515.1	481.8	–	481.8
Cost of sales		(223.5)	–	(223.5)	(203.6)	(5.1)	(208.7)
Gross profit		291.6	–	291.6	278.2	(5.1)	273.1
Selling, general and administrative expenses		(134.9)	(70.4)	(205.3)	(125.7)	(76.5)	(202.2)
Research and development expenses		(28.4)	(5.7)	(34.1)	(25.1)	(6.8)	(31.9)
Operating profit	2	128.3	(76.1)	52.2	127.4	(88.4)	39.0
Finance income	3	3.0	–	3.0	0.7	–	0.7
Finance expense	4	(11.5)	(2.5)	(14.0)	(10.5)	(1.0)	(11.5)
Share of profit/(loss) of investments accounted for using the equity method	6	0.3	(0.6)	(0.3)	(0.2)	(0.2)	(0.4)
Profit before taxation	7	120.1	(79.2)	40.9	117.4	(89.6)	27.8
Income taxes	9	(24.7)	17.7	(7.0)	(24.9)	28.0	3.1
Profit for the year		95.4	(61.5)	33.9	92.5	(61.6)	30.9
Earnings per share							
Basic	11			32.87p			30.15p
Diluted	11			32.76p			30.07p
Dividend per share (interim paid and final proposed for the year)	10			34.29p			31.60p

* The Group presents a number of non-GAAP Alternative Performance Measures (APMs). This allows investors to understand better the underlying performance of the Group, by excluding non-underlying items as set out in note 5.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2020

	2020 £m	2019 £m
Profit for the year	33.9	30.9
Other comprehensive (expense)/ income:		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency cash flow hedges		
- fair value movements	0.1	-
Foreign currency translation differences for foreign operations	(7.1)	3.8
Income tax relating to components of other comprehensive income	1.8	-
	(5.2)	3.8
Total comprehensive income for the period	28.7	34.7

Consolidated Statement of Financial Position

At 30 June 2020

	Note	2020 £m	Restated* 2019 £m
ASSETS			
Non-current assets			
Intangible assets	12	692.2	680.6
Property, plant and equipment	13	76.4	58.4
Investments	6	17.4	10.1
Deferred tax assets	15	2.7	0.9
Total non-current assets		788.7	750.0
Current assets			
Inventories	16	120.8	103.5
Current tax receivables	20	6.8	7.9
Trade and other receivables	17	93.9	99.8
Cash and cash equivalents	18	227.4	80.3
Total current assets		448.9	291.5
Total assets		1,237.6	1,041.5
LIABILITIES			
Current liabilities			
Borrowings and lease liabilities	21	(4.6)	(1.2)
Trade and other payables	19	(98.2)	(95.5)
Contingent consideration	32	(8.9)	(5.1)
Current tax liabilities	20	(25.6)	(16.3)
Total current liabilities		(137.3)	(118.1)
Non-current liabilities			
Borrowings and lease liabilities	21	(350.4)	(306.9)
Deferred income		-	-
Contingent consideration	32	(47.3)	(30.9)
Employee benefit obligations	23	-	-
Provisions	22	(2.5)	(2.0)
Deferred tax liabilities	15	(62.6)	(74.5)
Total non-current liabilities		(462.8)	(414.3)
Total liabilities		(600.1)	(532.4)
Net assets		637.5	509.1
EQUITY			
Issued share capital	25	1.1	1.0
Share premium account		409.3	277.9
Own shares	26	-	-
Hedging reserve		-	-
Foreign currency translation reserve		16.3	21.6
Merger reserve		84.4	84.4
Retained earnings		126.4	124.2
Total equity attributable to equity holders of the parent		637.5	509.1

* Restated as detailed in note 31 Acquisitions.

The financial statements were approved by the Board of Directors on 7 September 2020 and are signed on its behalf by:

Ian Page

Chief Executive Officer

7 September 2020

Paul Sandland

Chief Financial Officer

7 September 2020

Company number: 3369634

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 30 June 2020

	Issued share capital £m	Share premium account £m	Own shares £m	Hedging reserve £m	Foreign currency translation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
Year ended 30 June 2019								
At 1 July 2018	1.0	276.7	(0.4)	–	17.8	84.4	125.5	505.0
Change in accounting policy	–	–	–	–	–	–	(4.9)	(4.9)
At 1 July 2018	1.0	276.7	(0.4)	–	17.8	84.4	120.6	500.1
Profit for the period	–	–	–	–	–	–	30.9	30.9
Foreign currency translation differences for foreign operations	–	–	–	–	3.8	–	–	3.8
Total comprehensive income	–	–	–	–	3.8	–	30.9	34.7
Transactions with owners:								
Dividends paid	–	–	–	–	–	–	(28.4)	(28.4)
Share-based payments	–	–	–	–	–	–	1.5	1.5
Shares issued	–	1.2	–	–	–	–	–	1.2
Recycle of own shares to retained earnings	–	–	0.4	–	–	–	(0.4)	–
Total contributions by and distributions to owners	–	1.2	0.4	–	–	–	(27.3)	(25.7)
At 30 June 2019	1.0	277.9	–	–	21.6	84.4	124.2	509.1
Year ended 30 June 2020								
At 1 July 2019	1.0	277.9	–	–	21.6	84.4	124.2	509.1
Profit for the period	–	–	–	–	–	–	33.9	33.9
Foreign currency cash flow hedge - fair value movements	–	–	–	0.1	–	–	–	0.1
Foreign currency translation differences for foreign operations	–	–	–	–	(7.1)	–	–	(7.1)
Income tax relating to components of other comprehensive income	–	–	–	–	1.8	–	–	1.8
Total comprehensive income/ (expense)	–	–	–	0.1	(5.3)	–	33.9	28.7
Reclassified to cost of acquired intangibles	–	–	–	(0.1)	–	–	–	(0.1)
Transactions with owners:								
Dividends paid	–	–	–	–	–	–	(33.3)	(33.3)
Share-based payments	–	–	–	–	–	–	1.6	1.6
Shares issued	0.1	131.4	–	–	–	–	–	131.5
Total contributions by and distributions to owners	0.1	131.4	–	–	–	–	(31.7)	99.8
At 30 June 2020	1.1	409.3	–	–	16.3	84.4	126.4	637.5

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 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Operating profit		52.2	39.0
Non-underlying items		76.1	88.4
Underlying operating profit		128.3	127.4
Adjustments for:			
Depreciation	13	9.9	5.7
Amortisation	2	4.3	4.1
Release of government grant		(0.5)	(0.5)
Profit on disposal of tangible assets	7	-	(0.3)
Gain on curtailment of pension scheme	23	-	(3.5)
Equity settled share-based payment expense	27	1.5	2.3
Underlying operating cash flow before changes in working capital		143.5	135.2
Increase in inventories		(15.7)	(14.1)
Decrease/(increase) in trade and other receivables		6.9	(11.7)
Increase in trade and other payables		0.1	6.3
Cash generated from operating activities before interest, taxation and non-underlying items		134.8	115.7
Cash outflows in respect of non-underlying items		(7.3)	(7.4)
Cash generated from operating activities before interest and taxation		127.5	108.3
Interest paid		(7.8)	(9.2)
Interest on lease liabilities		(0.4)	-
Income taxes paid		(12.9)	(17.3)
Net cash inflow from operating activities		106.4	81.8
Cash flows from investing activities			
Proceeds from disposal of tangible assets		0.2	0.3
Interest received		0.3	-
Acquisition of subsidiaries (net of cash acquired)		(25.2)	(39.7)
Acquisition of investment in associates		(7.6)	-
Purchase of property, plant and equipment	13	(7.8)	(12.0)
Capitalised development expenditure	12	(1.3)	(1.0)
Purchase of other intangible non-current assets	12	(40.1)	(9.5)
Net cash outflow from investing activities		(81.5)	(61.9)
Cash flows from financing activities			
Proceeds from the issue of share capital		131.5	1.2
New borrowings		297.3	44.1
Expenses of raising borrowing facilities		(1.7)	(0.2)
Repayment of borrowings		(271.7)	(36.8)
Principal elements of lease payments		(3.2)	-
Dividends paid	10	(33.3)	(28.4)
Net cash inflow/ (outflow) from financing activities		118.9	(20.1)
Net increase/ (decrease) in cash and cash equivalents		143.8	(0.2)
Cash and cash equivalents at start of period	18	80.3	79.7
Exchange differences on cash and cash equivalents		3.3	0.8
Cash and cash equivalents at end of period	18	227.4	80.3
Reconciliation of net cash flow to movement in net borrowings			
Net increase/ (decrease) in cash and cash equivalents		143.8	(0.2)
New borrowings and lease liabilities		(302.8)	(44.1)
Repayment of borrowings and lease liabilities		275.3	36.8
Expenses of raising borrowing facilities		1.7	0.2
Acquisition of subsidiary borrowings and lease liabilities		(0.1)	(2.8)
Changes in accounting policy for leases		(12.7)	-
Exchange differences on cash and cash equivalents		3.3	0.8
Retranslation of foreign borrowings		(6.3)	(6.2)
Other non-cash changes		(2.0)	(0.9)
Movement in net borrowings in the period		100.2	(16.4)
Net borrowings at start of period		(227.8)	(211.4)
Net borrowings at end of period	28	(127.6)	(227.8)

Cash conversion is defined as cash generated from operating activities before interest and taxation as a percentage of underlying operating profit.

Notes to the Consolidated Financial Statements

1. Accounting Policies

Dechra Pharmaceuticals PLC is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the United Kingdom. The address of its registered office is 24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, England. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below, these have been applied consistently in all years presented with the exception of the adoption of new accounting standards as outlined below.

(a) Statement of Compliance

These consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRSs) and IFRS Interpretations Committee (IFRS IC) as adopted by the European Union, and the Companies Act 2006 applicable to companies reporting under IFRS. The Company has elected to prepare its Parent Company financial statements in accordance with FRS 101 and they are separately presented on pages 204 to 214.

(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 10 to 77. 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 Financial Review on page 33 for details, including our consideration of the impact of COVID-19 on this assessment. The consolidated financial statements are presented in Sterling, rounded to the nearest 0.1 million. They are prepared on a going concern basis and under the historical cost convention, except where IFRSs 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.

Prior Year Restatement

In preparation of the financial statements, comparative amounts have been restated to reflect the hindsight adjustments made on the provisional Dechra Brasil Produtos Veterinarios LTDA (formerly Laboratorios Vencofarma do Brasil Ltda) (Dechra Brazil) acquisition accounting adjustments. Hindsight adjustments have been made to intangible assets, tangible assets, inventory, trade receivables and deferred tax liabilities (note 31).

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 where the actual outcome may differ from that calculated. The key judgements and key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing material adjustment to the carrying values of the assets and liabilities within the next financial year, are summarised below.

Area	Key judgements	Key sources of estimation uncertainty	Note reference
Impairment of goodwill and indefinite life intangible assets	Determination of cash-generating units for assessing impairment		14
Valuation of assets and liabilities acquired through business combinations	Identification of acquired assets and liabilities such as product rights, commercial relationships, pharmacological processes and brand intangibles	Determination of an appropriate discount rate	31
Valuation of licensing agreements and associated contingent consideration		Timing, likelihood and quantum of future royalty cash flows and the determination of an appropriate discount rate	32
Uncertain tax position	Assessment for uncertain tax positions satisfying the criteria for the recognition and measurement of provisions under IFRS 23.	Assessment of expected amounts to settle the obligation	9

1. Accounting Policies continued

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: amortisation of acquired intangibles; remeasurement and accounting for the passage of time in respect of contingent considerations; unwind of fair value adjustments to inventory arising from business combinations; non-recurring expenses relating to Brexit; expenses relating to acquisition and subsequent integration activities; rationalisation of the manufacturing organisation; loss on extinguishment of debt; and the revaluation of deferred tax balances following substantial tax legislation changes. Management utilise this measure to isolate the impact of exceptional, one-off or non-trading related items and consequently the classification of these items requires judgement. Further details can be found in note 5.

Adoption of New and Revised Standards

The following standards, amendments to standards or interpretations have been adopted for the first time from 1 July 2019. Please refer to note 35 for more detail on the impact of adoption on the financial statements.

- IFRS 16 'Leases' provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.
- IFRIC 23 'Uncertainty over Income Tax Treatment' provides clarity on how to apply the recognition and measurement requirements in IAS 12 'Income Taxes' when there is uncertainty over income tax treatments. Adoption of this interpretation did not have a material impact on the Group's financial statements.
- IFRS 3 'Business Combinations' - The Group has early adopted the amendments to apply an optional concentration test to assess whether substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or group of similar identifiable assets. The optional concentration test was applied in the acquisition of the *Mirataz* product rights (refer to note 31).

New Standards and Amendments to Standards or Interpretations

A number of amendments to IFRSs became effective for the financial year beginning on 1 July 2019. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

(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. The financial statements of all subsidiary undertakings are prepared to the same reporting date as the Company, with the exception of Genera Pharma d.o.o., Dechra Brazil and Dechra-Brovel S.A. de C.V. (all of which prepare local financial statements to 31 December each year, in line with local tax authority regulations).

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the change in net assets of the investee after the date of acquisition. Intangible assets identified as part of the notional purchase price allocation are amortised over the useful life of each asset, with the Group's share recognised as a charge in the income statement.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. Distributions received from an associate reduce the carrying amount of the investment.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to share of profit/(loss) of associates in the income statement.

Gains and losses resulting from upstream and downstream transactions between the Group and its associate are only recognised to the extent realised. Any unrealised gains or losses are eliminated, to the extent of the Group's interest in the associate. Accounting policies of associates have been aligned where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements

continued

1. Accounting Policies continued

(d) Foreign Currency Translation

(i) Functional and Presentational Currency

The consolidated financial statements are presented in Sterling, which is the Group's presentational currency, and are rounded to the nearest hundred thousand, except where it is deemed relevant to disclose the amounts to the nearest million. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

(ii) Foreign Currency Translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, with the exception of differences on transactions that are subject to effective cash flow hedges, which are recognised in other comprehensive income.

(iii) Foreign Operations

The income and expenses are translated to Sterling at the average rate for the period being reported. The assets and liabilities of foreign operations are translated to Sterling at the closing rate at the reporting date. Foreign currency differences on all translations are recognised in other comprehensive income in the foreign currency translation reserve, a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. On disposal of a foreign entity, accumulated exchange differences previously recognised in other comprehensive income are recognised in the income statement in the same period in which the gain or loss on disposal is recognised.

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

Financial Assets

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Management determines the classification of its financial assets at initial recognition in accordance with IFRS 9, which defines three categories that debt instruments may be classified as, depending on the purpose for which the assets are held. These categories are:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); and
- Fair value through the profit and loss (FVPL).

Amortised cost relates to assets that are held for collection of contractual cash flows. Where those cash flows represent solely payments of principal and interest, they are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the income statement. All material financial assets of the Group are held at amortised cost.

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.

Derivative Financial Instruments

The Group uses derivative financial instruments to manage its exposure to interest rate risks. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are remeasured to fair value at each reporting date.

Cash Flow Hedges

Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognised in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised immediately in the income statement. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs.

Net Investment Hedge

For hedges of net investments in foreign operations, where the hedge is effective movements are recognised in other comprehensive income. Ineffectiveness is recognised in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

1. Accounting Policies continued

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

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 receivables are recorded at aggregate invoice value (including value added tax or other sales taxes) less loss allowances, which are calculated using the expected loss model. Where trade receivables contain a significant financing component, they are then carried at amortised cost using the effective interest rate method, less loss allowances. Other receivables are recorded at their transaction value.

The Group assesses, on a forward-looking basis, the expected credit losses associated with its trade and other receivables. The Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Where there is a specific risk surrounding a receivable then a credit loss allowance of 100% is applied.

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 and impairment losses.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Land is not depreciated. Assets in the course of construction are not depreciated until the date the assets become available for use. The estimated useful lives are as follows:

• freehold buildings	25 years
• short leasehold buildings	period of lease
• plant and fixtures	3 to 15 years
• motor vehicles	4 years

The residual value, where significant, is reassessed annually.

(g) Intangible Assets

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries and associates. In respect of business acquisitions that have occurred before 1 July 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the separable assets, liabilities and contingent liabilities acquired.

Acquisitions after this date fall under the provisions of 'IFRS 3 Business Combinations'. 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.

Notes to the Consolidated Financial Statements

continued

1. Accounting Policies continued.

(g) Intangible Assets

Goodwill continued

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. The Group has early adopted the amendments to IFRS3 'Business Combinations' and applied the optional concentration test in relation to the acquisition of *Mirataz* (refer to note 31).

Other Intangible Assets

Other intangible assets that are acquired by the Group are stated at cost (including future milestone and royalty payments as applicable) less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and other intangibles is recognised in the income statement as an expense is incurred.

Intangible Assets Subsequent Expenditure

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

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite or is otherwise stated below. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each consolidated statement of financial position date. Intangible assets are amortised from the date that they are available for use. Assets in the course of construction are not amortised until the date the assets become available for use.

The estimated useful lives are as follows:

• software	5 to 7 years
• capitalised development costs	5 to 10 years or period of patent
• patent rights	period of patent
• marketing authorisations	indefinite life or period of marketing authorisation
• product rights	10 to 15 years
• commercial relationships	7 years
• brand	3 to 10 years
• acquired capitalised development costs	5 to 15 years
• pharmacological process	10 years

The pharmacological process from the acquisition of Putney Inc. and capitalised developed technology from the acquisition of AST Farma B.V. and Le Vet Beheer B.V. are amortised on a reducing balance method at a rate of 20% over a 10 year life based on the expected profile of future cash flows. All amortisation on a reducing balance methodology is recognised within selling and general administrative expenses with the exception of that in respect of the pharmacological process which is recognised within research and development expenses.

1. Accounting Policies continued

(g) Intangible Assets continued

Goodwill continued

The amortisation of the intangible assets are classified as an administrative expense because they relate to the right to sell and distribute the product. Within the acquired intangibles the product rights encompass market authorisations, and the capitalised development costs encompass product authorisations subject to regulatory approval. The pharmacological process is classified as a research and development expense as it relates to the process of taking a product through to registration.

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

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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

(i) Cash and Cash Equivalents

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

(j) Impairment

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

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate 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.

(k) Dividends paid

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

Notes to the Consolidated Financial Statements

continued

1. Accounting Policies continued

(l) Employee Benefits

From 1 January 2019, the employee pension benefit in the Netherlands is being provided through contributions to a defined contribution scheme and the Group's obligations under the previous pension arrangements ceased.

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

That benefit was 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 was performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses that arose in calculating the Group's obligation in respect of a scheme were recognised immediately in reserves and reported in the consolidated statement of comprehensive income. Where the calculation resulted in a benefit to the Group, the asset recognised was 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.

(m) Revenue Recognition

Revenue from the sale of goods is measured at the fair value of the consideration and excludes intra-group sales and value added and similar taxes. The primary performance obligation is the transfer of goods to the customer. Revenue from the sale of goods is recognised when control of the goods is transferred to the customer, at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods. Revenue from third party manufacturing consists principally of the production of goods to customer specification together with the provision of technical services. Revenues from third party manufacturing are recognised upon completion of the work order, either the completion and agreed delivery of the product, or upon full provision of the service.

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 control of the goods have passed 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.

1. Accounting Policies continued

(m) Revenue Recognition continued

Provision for rebates, returns, discounts and other variable consideration is reflected in the transaction price at the point of recognition to the extent that it is highly probable there will not be a significant reversal. The methodology and assumptions used to estimate rebates and returns are based on the most likely method of calculation. This is adjusted 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.

(n) Leases

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The lease liability is not materially sensitive to a reasonable change in discount rate and therefore will not represent a critical accounting estimate presented within the Annual Report.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short term leases are leases with a lease terms of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

(o) Net Financing Costs

Net financing costs comprise interest payable on borrowings, unwinding of discount on provisions and deferred considerations measured at amortised cost, 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.

(p) Contingent Considerations

The Group has adopted the financial liability model when accounting for contingent consideration in respect of licensing agreements. The estimated future amounts payable for contingent consideration are recorded on initial recognition at the present value of the future cash flow payable, discounted with an appropriate discount rate, with a corresponding intangible asset recorded. The unwind of the liability, reflecting discounting for the passage of time, is recognised within the income statement as a finance expense and calculated using a risk-free discount rate. Contingent considerations are remeasured at each reporting date and any downward remeasurement of the related liability is adjusted against the intangible, with any excess over the carrying value of the intangible recognised in the income statement. Any upwards remeasurement is recognised as an increase to the intangible asset.

Notes to the Consolidated Financial Statements

continued

1. Accounting Policies continued

(q) Provisions

Provisions for legal claims, dilapidations, environmental remediation, deferred rent and advanced grants for property, plant and equipment are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required on settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

(r) Basis of Charge for Taxation

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

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

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

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

In respect of uncertain tax positions, where an outflow of funds is believed to be probable and a reliable estimate of the outcome of the dispute can be made, management provides for its best estimate of the liability. Such provisions are measured using either the best estimate, or the expected value model depending on management's judgement of which method better predicts the resolution of the uncertainty.

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

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

(s) Earnings per Share

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

The Group has also chosen to present an alternative EPS measure, with profit adjusted for non-underlying items. A reconciliation of this alternative measure to the statutory measure required by IFRS is given in the Financial Review on page 27. A breakdown of the non-underlying items is given in notes 4 and 5.

2. Operating Segments

The Group has three reportable segments, as discussed below, which are based on information provided to the Board of Directors, which is deemed to be the Group's chief operating decision maker. Several operating segments which have similar economic characteristics have been aggregated into the reporting segments. In undertaking this aggregation the assessment determined that the aggregated segments have similar products, production processes, customers and overall regulatory environments.

The European Pharmaceuticals Segment comprises Dechra Veterinary Products EU, Dechra Veterinary Products International and Dechra Pharmaceuticals Manufacturing. This Segment operates internationally and manufactures and markets Companion Animal, Equine, Food producing Animal Products and Nutrition. This Segment also includes third party manufacturing and other revenues from non-core activities.

2. Operating Segments continued

The North American Pharmaceuticals Segment consists of Dechra Veterinary Products US, Putney, Dechra Veterinary Products Canada, and Dechra-Brovel, which sells Companion Animal, Equine Products and Food producing Animal Products in those territories. The Segment also includes our manufacturing unit based in Melbourne, Florida and was further expanded during the period with the acquisition of Ampharmco LLC.

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.

Reconciliation of reportable segment revenues, profit or loss and liabilities and other material items:

	2020 £m	Restated* 2019 £m
Revenue by segment		
European Pharmaceuticals	323.5	304.0
NA Pharmaceuticals	191.6	177.8
	515.1	481.8
Operating profit/(loss) by segment		
European Pharmaceuticals	100.0	100.3
NA Pharmaceuticals	63.7	59.2
Pharmaceuticals Research and Development	(28.4)	(25.1)
Segment operating profit	135.3	134.4
Corporate and other unallocated costs	(7.0)	(7.0)
Underlying operating profit	128.3	127.4
Amortisation of acquired intangibles	(69.6)	(76.8)
Remeasurement of contingent consideration	-	0.1
Expenses relating to Brexit	-	(0.9)
Fair value uplift of inventory acquired through business combinations	-	(5.1)
Rationalisation of manufacturing organisation	(2.2)	(2.0)
Expenses relating to acquisitions and subsequent integration activities	(4.3)	(3.7)
Total operating profit	52.2	39.0
Finance income	3.0	0.7
Finance expense	(14.0)	(11.5)
Share of losses in investment accounted for using the equity method	(0.3)	(0.4)
Profit before taxation	40.9	27.8
Total liabilities by segment		
European Pharmaceuticals	(110.3)	(80.9)
NA Pharmaceuticals	(53.1)	(44.0)
Pharmaceuticals Research and Development	(5.1)	(2.1)
Segment liabilities	(168.5)	(127.0)
Corporate loans and revolving credit facility	(340.0)	(308.1)
Corporate accruals and other payables	(3.4)	(6.5)
Current and deferred tax liabilities *	(88.2)	(90.8)
	(600.1)	(532.4)
Revenue by product category		
CAP	361.6	340.2
Equine	36.4	34.4
FAP	74.8	57.3
Nutrition	28.6	29.1
Other	13.7	20.8
	515.1	481.8
Additions to intangible non-current assets by segment (including through business combinations)		
European Pharmaceuticals *	22.3	42.2
NA Pharmaceuticals	47.5	-
Pharmaceuticals Research and Development	0.4	0.3
Corporate and central costs	1.5	0.5
	71.7	43.0

* Restated as detailed in note 31 Acquisitions.

Notes to the Consolidated Financial Statements

continued

2. Operating Segments continued

	2020 £m	2019 £m
Additions to Property, Plant and Equipment by segment (including through business combinations)		
European Pharmaceuticals	12.1	17.4
NA Pharmaceuticals	4.3	0.3
Pharmaceuticals Research and Development	0.7	0.4
Corporate and central costs	0.2	0.1
	17.3	18.2
Depreciation and amortisation by segment		
European Pharmaceuticals	64.1	68.1
NA Pharmaceuticals	18.5	17.8
Pharmaceuticals Research and Development	0.5	0.3
Corporate and central costs	0.7	0.4
	83.8	86.6
The total depreciation and amortisation charge is made up of the following:		
Non-underlying		
Amortisation – selling, general and administrative expenses	63.9	70.0
Amortisation – research and development expenditure	5.7	6.8
	69.6	76.8
Underlying		
Amortisation	4.3	4.1
Depreciation	9.9	5.7
	14.2	9.8

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:

	2020 Revenue £m	2020 Non- current assets £m	2019 Revenue £m	Restated* 2019 Non- current assets £m
UK	45.0	30.4	56.4	20.1
Germany	53.9	2.8	48.2	3.7
Rest of Europe	173.8	419.8	163.5	443.8
USA	181.9	213.2	169.1	175.8
Rest of World	60.5	122.5	44.6	106.6
	515.1	788.7	481.8	750.0

* Restated as detailed in note 31 Acquisitions.

3. Finance Income

	2020 £m	2019 £m
Finance income arising from:		
– Cash and cash equivalents	0.1	–
– Foreign exchange gains	2.9	0.7
	3.0	0.7

4. Finance Expense

	2020 £m	2019 £m
Underlying		
Finance expense arising from:		
– Financial liabilities at amortised cost	11.1	10.5
– Lease liability interest	0.4	–
Underlying finance expense	11.5	10.5
	2020 £m	2019 £m
Non-underlying		
Loss on extinguishment of debt	1.0	–
Fair value and other movements on contingent consideration	1.5	1.0
Non-underlying finance expense	2.5	1.0
Total finance expense	14.0	11.5

5. Non-underlying Items

Non-underlying items charged/(credited) comprise:

	2020 £m	2019 £m
Amortisation of acquired intangibles		
– classified within selling, general and administrative expenses	63.9	70.0
– classified within research and development expenses	5.7	6.8
Remeasurement of contingent consideration	–	(0.1)
Fair value uplift of inventory acquired through business combinations	–	5.1
Expenses relating to Brexit	–	0.9
Expenses relating to acquisitions and subsequent integration activities	4.3	3.7
Rationalisation of manufacturing organisation	2.2	2.0
Non-underlying operating loss items	76.1	88.4
Amortisation in relation to Medical Ethics Pty Ltd (net of tax)	0.6	0.2
Loss on extinguishment of debt	1.0	–
Fair value and other movements on contingent consideration	1.5	1.0
Non-underlying loss before tax items	79.2	89.6
Tax on non-underlying loss before tax items	(18.0)	(20.0)
Revaluation of deferred tax balances following the change in Dutch tax rates/US tax rates	0.3	(8.0)
Non-underlying loss after tax items	61.5	61.6

Amortisation of acquired intangibles reflects the amortisation of the fair values of future cash flows recognised on acquisition in relation to the identifiable intangible assets acquired.

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

The fair value uplift of inventory acquired through business combinations is recognised in accordance with IFRS 3 'Business Combinations' to record the inventory acquired at fair value and its subsequent release into the income statement.

Expenses relating to Brexit represents one-off regulatory and technology transfer costs that were incurred in advance of Brexit.

Expenses relating to acquisitions and subsequent integration activities represents costs incurred during the acquisition and integration of Ampharmco (£1.2 million), AST Farma and Le Vet (£0.7 million), Dechra Brazil (£0.4 million) and other prospective projects (£0.7 million). Pre-acquisition costs in relation to *Osurnia* (£1.3 million) which completed in July 2020 are also included.

Rationalisation of manufacturing organisation relates to the income statement cost associated with this strategic programme. Costs since the inception of the programme have been £7.1 million. The total planned spend on this project is now £8.4 million, and will conclude in the year ended 30 June 2021.

The loss on extinguishment of debt relates to the acceleration of the amortisation of arrangement fees relating to the Term Loan on termination.

Notes to the Consolidated Financial Statements

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6. Interests in Associate

(a) Losses in Associate

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

	2020 £m	2019 £m
Revenue	0.7	0.4
Pre-tax loss from continuing operations	(3.1)	(1.4)
Post-tax loss from continuing operations	(1.3)	(0.8)
	2020 £m	2019 £m
Non-current assets	1.9	1.9
Current assets	1.2	4.1
	3.1	6.0
Non-current liabilities	–	–
Current liabilities	(1.6)	(0.2)
	(1.6)	(0.2)
Net assets of associate	1.5	5.8

(b) Interest in Associate

	2020 £m	2019 £m
1 July	10.1	10.5
Additions	7.6	–
Share of underlying profit/(loss) after tax	0.3	(0.2)
Share of amortisation of intangible asset identified on acquisition (net of tax)	(0.6)	(0.2)
30 June	17.4	10.1

On 5 July 2019 the Group acquired a further 15.0% of the issued share capital of Medical Ethics Pty Ltd for a total consideration of AUD13.5 million (£7.6 million). Following the acquisition the Group holds 48.0% of the issued share capital of Medical Ethics Pty Ltd, which is the holding company of Animal Ethics Pty Ltd. The company is incorporated in Australia, which is also the principal place of business. The registered address is c/o Level 3, 649 Bridge Road, Richmond, Victoria 3121, Australia. The company has share capital consisting solely of ordinary shares, which are directly owned by the Group. Medical Ethics Pty Ltd is a private company and there is no quoted market price available for its shares. There are no contingent liabilities relating to the Group's interest in the associate.

The Group's share of the loss arising from its investment in Medical Ethics includes the effect of harmonising the accounting policies and of amortising the fair value adjustments (net of tax), which are treated as non-underlying.

(c) Reconciliation of Summarised Financial Information Presented to the Carrying Amount of its Interest in Associates

	2020 £m	2019 £m
Opening interest in associate	1.5	1.9
Fair value of associate acquired	4.6	–
Post-tax profit/(loss) from continuing operations	0.3	(0.2)
Amortisation of notional intangible asset recognised on acquisition (net of tax)	(0.6)	(0.2)
Interest in associate	5.8	1.5
Goodwill	11.6	8.6
Carrying value of investment in associate	17.4	10.1

7. Profit Before Taxation

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

	2020 £m	2019 £m
Cost of inventories recognised as an expense	171.1	158.8
Impairment of inventories included in above figure	1.4	2.1
Depreciation of property, plant and equipment		
– owned assets	6.6	5.7
– right of use assets	3.3	–
Amortisation of intangible assets	73.9	80.9
Profit on disposal of property, plant and equipment	–	(0.3)
(Release)/recognition of impairment of receivables	(0.4)	0.6
Operating lease rentals payable	–	3.3
Research and development expenditure as incurred	28.4	25.1
Net pension credit in relation to defined benefit pension scheme (see note 23)	–	(2.8)
Auditors' remuneration	1.2	1.0
Analysis of total fees paid to the Auditors:		
Audit of these financial statements	0.6	0.4
Audit of financial statements of subsidiaries pursuant to legislation	0.5	0.5
Other assurance services – audit related assurance services*	0.1	0.1
Total fees paid to Auditors	1.2	1.0

* This includes £0.06 million (2019: £0.04 million) in relation to the review of the Half-Yearly Report.

During the year a fire occurred at one of the Group's third party logistics provider locations in the Netherlands that resulted in inventory to the value of £6.4 million being destroyed and written off. The inventory write off has been included in the impairment of inventories value above and is offset by amounts recovered through insurance proceeds of £5.3 million and a receivable from the insurers of £1.1 million with no impact on the Income Statement.

8. Employees

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

	2020 Number	2019 Number
Manufacturing	615	591
Distribution	141	151
Administration	1,052	989
Total	1,808	1,731

The costs incurred in respect of these employees were:

	2020 £m	2019 £m
Wages and salaries	86.7	78.8
Social security costs	11.1	10.5
Other pension costs	4.7	4.5
Curtailment of defined benefit pension scheme (see note 23)	–	(3.5)
Share-based payments charge (see note 27)	1.5	2.4
Total	104.0	92.7

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

	2020 £m	2019 £m
Short term employee benefits	5.5	5.7
Post-employment benefits	0.2	0.3
Share-based payments charge	0.7	1.4
	6.4	7.4

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 129 to 138.

Notes to the Consolidated Financial Statements

continued

8. Employees continued

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. Total pension contributions amounted to £4.7 million (2019: £4.5 million). Contributions to defined benefit pension schemes included in the above figures total £nil (2019: £0.3 million).

9. Income Taxes

	2020 £m	2019 £m
Current tax		
– UK corporation tax	3.5	1.0
– overseas tax at prevailing local rates	18.2	16.5
– adjustment in respect of prior years	(0.8)	1.6
Total current tax expense	20.9	19.1
Deferred tax		
– origination and reversal of temporary differences	(14.5)	(14.0)
– adjustment in respect of tax rates	1.4	(8.0)
– adjustment in respect of prior years	(0.8)	(0.2)
Total deferred tax credit	(13.9)	(22.2)
Total income tax charge/(credit) in the Consolidated Income Statement	7.0	(3.1)

The tax on the Group's profit before taxation differs from the standard rate of UK corporation tax of 19.0% (2019: 19.0%). The differences to this rate are explained below:

	2020 £m	2019 £m
Profit before taxation	40.9	27.8
Tax at 19.0% (2019: 19.0%)	7.8	5.3
Effect of:		
– expenses not deductible	1.4	1.2
– acquisition expenses	0.6	0.4
– research and development related tax credits	(0.4)	(0.1)
– patent box tax credits	(2.7)	(2.6)
– other incentives	(0.2)	–
– impact of financing (income not taxable)	–	(0.9)
– share in results of associates	(0.1)	(0.1)
– effects of overseas tax rates	(0.3)	0.4
– movement in unrecognised deferred tax	1.1	–
– adjustment in respect of prior years	(1.6)	1.3
– change in tax rates	1.4	(8.0)
Total income tax charge/(credit) in the Consolidated Income Statement	7.0	(3.1)

Recurring items in the tax reconciliation include: research and development related tax credits and patent box incentives; expenses not deductible; and the share of results in associates. The effective tax rate is 17.1% (excluding non-underlying items the effective tax rate is 20.6%).

Tax Credit/ (Charge) Recognised Directly in Equity

	2020 £m	2019 £m
Deferred tax on employee benefit obligations	–	–
Deferred tax on other equity movements	1.8	–
Tax recognised in Consolidated Statement of Comprehensive Income	1.8	–
Corporation tax on equity settled transactions	0.4	0.4
Deferred tax on equity settled transactions	(0.3)	(1.2)
Total tax recognised in Equity	0.1	(0.8)

The UK current tax rate used for the period is 19.0% which is the enacted rate from 1 April 2017. An announcement was made in the Budget on 11 March 2020 (which was substantively enacted on 17 March 2020) for the main rate applicable from 1 April 2020 to remain at 19.0%, removing the previously enacted reduction to 17.0%. The Dutch current tax rate used for the period is 25.0%, however, this rate is reducing to 21.7% effective from 1 January 2021 as per the Dutch Tax Plan 2020 enacted in December 2019. The tax rate applied for deferred tax purposes is based on the timing of when each individual deferred tax balance is expected to reverse in the future.

9. Income Taxes continued

At 30 June 2020, the Group held a current provision of £5.6 million (2019: £3.8 million) in respect of uncertain tax positions. The resolution of these tax matters may take many years. The range of reasonably possible outcomes within the next financial year is £0.9 million to £7.0 million.

EU CFC Challenge

In October 2017 the European Commission (the Commission) opened a State Aid investigation into the Group Financing Exemption in the UK Controlled Foreign Company (CFC) rules. On 25 April 2019 the Commission issued its decision on the CFC Group Financing Exemption concluding that part of the UK measures were unlawful and incompatible instructing the UK Government to recover the State Aid. The UK Government filed an annulment appeal on 12 June 2019. In common with other UK-based international companies Dechra had financing arrangements in line with the current UK legislation. We have calculated the maximum potential State Aid claimed as £4.0 million excluding penalties and interest. Given the current position no provision has been recognised in the financial statements. We continue to monitor developments.

Future Tax Charge

The Group's future tax charge, and its effective tax rate could be affected by several factors including the impact of the implementation of the OECD's Base Erosion and Profit Shifting ('BEPS') actions, and changes in applicable tax rates and legislation in the territories in which it operates.

10. Dividends

	2020 £m	2019 £m
Final dividend paid in respect of prior year but not recognised as a liability in that year:		
22.10 pence per share (2019: 18.17 pence per share)	22.7	18.6
Interim dividend paid: 10.29 pence per share (2019: 9.50 pence per share)	10.6	9.8
Total dividend 32.39 pence per share (2019: 27.67 pence per share) recognised as distributions to equity holders in the period	33.3	28.4
Proposed final dividend for the year ended 30 June 2020: 24.00 pence per share (2019: 22.10 pence per share)	25.9	22.7
Total dividend paid and proposed for the year ended 30 June 2020: 34.29 pence per share (2019: 31.60 pence per share)	37.0	32.5

In accordance with IAS 10 'Events After the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2020 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 2021. There are no income tax consequences. The final dividend for the year ended 30 June 2019 is shown as a deduction from equity in the year ended 30 June 2020.

11. Earnings per Share

Earnings per ordinary share have 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.

	2020 Pence	2019 Pence
Basic earnings per share		
– Underlying*	92.50	90.24
– Basic	32.87	30.15
Diluted earnings per share		
– Underlying*	92.19	90.01
– Diluted	32.76	30.07

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

	2020 £m	2019 £m
Earnings for underlying basic and underlying diluted earnings per share	95.4	92.5
Earnings for basic and diluted earnings per share	33.9	30.9
	Number	Number
Weighted average number of ordinary shares for basic earnings per share	103,133,142	102,504,510
Impact of share options	348,393	257,838
Weighted average number of ordinary shares for diluted earnings per share	103,481,535	102,762,348

* Underlying measures exclude non-underlying items as defined in note 1.

At 30 June 2020, there are 373,439 options (2019: 421,486) that are excluded from the EPS calculations as they are not dilutive for the period presented but may become dilutive in the future.

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continued

12. Intangible Assets

	Goodwill*	Software	Development costs	Patent rights	Marketing authorisations	Acquired intangibles	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 1 July 2018	229.3	16.7	13.2	3.9	0.9	674.0	938.0
Additions	–	2.8	1.2	–	–	7.9	11.9
Acquisitions through business combinations (Restated*)	12.4	0.1	–	0.4	–	18.2	31.1
Remeasurement (note 32)	–	–	–	–	–	(1.5)	(1.5)
Disposals	–	–	(0.3)	–	–	–	(0.3)
Foreign exchange adjustments	4.0	0.1	(0.1)	–	–	11.2	15.2
At 30 June 2019 and 1 July 2019 (Restated*)	245.7	19.7	14.0	4.3	0.9	709.8	994.4
Additions	–	1.8	1.8	0.3	–	46.2	50.1
Acquisitions through business combinations	6.6	0.1	–	–	–	14.9	21.6
Remeasurement (note 32)	–	–	–	–	–	10.9	10.9
Foreign exchange adjustments	1.5	0.1	0.1	(0.1)	–	9.6	11.2
At 30 June 2020	253.8	21.7	15.9	4.5	0.9	791.4	1,088.2
Accumulated Amortisation							
At 1 July 2018	–	3.7	7.1	3.0	–	214.4	228.2
Charge for the year	–	2.5	1.3	0.3	–	76.8	80.9
Foreign exchange adjustments	–	(0.1)	0.1	–	–	4.7	4.7
At 30 June 2019 and 1 July 2019	–	6.1	8.5	3.3	–	295.9	313.8
Charge for the year	–	2.9	1.2	0.2	–	69.6	73.9
Foreign exchange adjustments	–	–	0.1	–	–	8.2	8.3
At 30 June 2020	–	9.0	9.8	3.5	–	373.7	396.0
Net book value							
At 30 June 2020	253.8	12.7	6.1	1.0	0.9	417.7	692.2
At 30 June 2019 (Restated*)	245.7	13.6	5.5	1.0	0.9	413.9	680.6

* Restated as detailed in note 31 Acquisitions.

The assets within patent rights include the rights to Equidone® which was launched in the USA during 2011, and has a carrying value of £0.1 million with a remaining amortisation period of 1 year, and the in-licensed products within Canada (acquired in 2016 with a carrying value of £0.2 million and has a remaining amortisation period of 6.5 years). During the year, £0.3 million was added to patent rights within EU Pharmaceuticals Segment.

£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.

The software intangible asset includes £10.5 million relating to the ERP system in the EU Pharmaceuticals Segment, this has a remaining amortisation period of 5 years.

Goodwill is allocated across cash generating units that are expected to benefit from that business combination. Key assumptions made in this respect are given in note 14.

12. Intangible Assets continued

In accordance with the disclosure requirements of IAS 38 'Intangible Assets', the components of acquired intangibles are summarised below:

	Commercial relationships £m	Pharmacological process £m	Brand £m	Capitalised development costs £m	Product rights £m	Total £m
Cost						
At 1 July 2018	6.7	49.6	15.4	367.3	235.0	674.0
Additions	–	–	–	–	7.9	7.9
Reclassification*	–	–	–	2.9	(2.9)	–
Acquisitions through business combinations	–	–	0.6	17.6	–	18.2
Remeasurement	–	–	–	–	(1.5)	(1.5)
Foreign exchange adjustments	0.1	1.8	0.3	5.8	3.2	11.2
At 30 June 2019 and 1 July 2019	6.8	51.4	16.3	393.6	241.7	709.8
Additions	–	–	–	–	46.2	46.2
Acquisitions through business combinations	1.9	–	–	13.0	–	14.9
Remeasurement	–	–	–	–	10.9	10.9
Foreign exchange adjustments	–	1.8	0.3	3.4	4.1	9.6
At 30 June 2020	8.7	53.2	16.6	410.0	302.9	791.4
Accumulated Amortisation						
At 1 July 2018	1.3	20.2	4.4	47.4	141.1	214.4
Charge for the year	2.3	6.8	1.6	55.0	11.1	76.8
Reclassification*	–	–	–	0.2	(0.2)	–
Foreign exchange adjustments	0.1	0.9	0.1	1.7	1.9	4.7
At 30 June 2019 and 1 July 2019	3.7	27.9	6.1	104.3	153.9	295.9
Charge for the year	2.0	5.7	1.6	48.2	12.1	69.6
Foreign exchange adjustments	0.2	1.1	0.2	3.4	3.3	8.2
At 30 June 2020	5.9	34.7	7.9	155.9	169.3	373.7
Net book value						
At 30 June 2020	2.8	18.5	8.7	254.1	133.6	417.7
At 30 June 2019	3.1	23.5	10.2	289.3	87.8	413.9

* Apex IPR&D acquired October 2016 has been reclassified from Product rights to Capitalised development costs.

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

Significant assets	Description of acquired intangibles	Goodwill carrying value £m	Acquired intangibles carrying value £m	Sub-Total carrying value £m	Remaining amortisation period on acquired intangibles
Intangible assets arising from the acquisition of Dermapet	Product, marketing and distribution rights	0.4	17.7	18.1	5 ½ years
Intangible assets arising from the acquisition of Genetrix	Product, marketing and distribution rights	1.8	0.2	2.0	½ year
Intangible assets arising from the acquisition of Eurovet	Technology, product, marketing and distribution rights	40.1	17.1	57.2	2 years
Intangible assets arising from the acquisition of PSPC Inc	Product, marketing and distribution rights	0.1	3.4	3.5	4 years
Intangible asset acquired from Pharmaderm Animal Health	Marketing and distribution rights	–	0.3	0.3	2 years
HY-50 intangible asset acquired from Bexinc Limited	Marketing and distribution rights	–	0.8	0.8	1 ½ years
Goodwill arising from the acquisition of Brovel		3.0	–	3.0	N/A
Goodwill arising from the acquisition of Vetxx		17.4	–	17.4	N/A

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12. Intangible Assets continued

Significant assets	Description	Goodwill carrying value £m	Acquired Intangibles carrying value £m	Sub-Total carrying value £m	Remaining amortisation period on acquired intangibles
Goodwill arising from the acquisition of Dales		2.2	–	2.2	N/A
Intangible assets arising from the acquisition of Genera	Product, brand, technology, marketing and distribution rights		0.6 0.3 6.7		2 ½ year 5 ½ years 10 ½ years
		5.6		13.2	Genera – total
Intangible assets arising from the acquisition of Putney	Product, brand, technology, pharmacological process, marketing and distribution rights		6.0 18.9 42.9		6 years 6 years 8 years
		53.4		121.2	Putney – total
Intangible asset arising from the acquisition of Apex	Product and technology		12.6 2.0 0.1		13 years 10 years 1 year
		8.9		23.6	Apex – total
Intangible asset related to Animal Ethics	Marketing and distribution rights	–	37.2	37.2	10 years
Intangible asset related to a US and Brazilian dental licensing agreement	Marketing and distribution rights	–	0.5	0.5	7 years
Intangible asset related to Bioveta	Marketing and distribution rights	–	2.1	2.1	10 years
Intangible asset related to an injectable solution licensing agreement	Marketing and distribution rights	–	6.3	6.3	10 years
Intangible assets arising from the acquisition of AST Farma and Le Vet	Product, brand, technology, marketing and distribution rights		60.4 85.5 15.0 0.5 1.3		7 ½ years 6 ½ years 8 years ½ year 2 ½ years
		104.9		267.6	AST Farma and Le Vet – total
Intangible asset related to Premune	Product	–	0.1	0.1	1 year
Intangible assets related to an injectable solution licensing agreement	Marketing and distribution rights	–	8.0	8.0	15 years
Intangible assets arising from the acquisition of Caledonian	Product, brand, technology, marketing and distribution rights	0.9	3.4	4.3	3 ½ years
Intangible assets arising from the acquisition of Dechra Brazil	Product, brand, technology, marketing and distribution rights		7.7 0.4 0.4 0.1		8 ½ years 3 ½ years 6 ½ years ½ year
		8.5		17.1	Brazil ⁱ – total
Intangible assets related to the licensing and distribution of Pimobendan Oral Solution	Product, and marketing and distribution rights	–	0.2	0.2	10 years
Intangible assets arising from the acquisition of Ampharmco	Product and technology rights		1.4 6.0 0.6 6.0		2 ½ years 17 ½ years 14 ½ years 13 years
		6.6		20.6	Ampharmco – total
Intangible assets arising from the acquisition of Mirataz	Product and technology rights	–	45.0	45.0	9 ½ years
		253.8	417.7	671.5	

13. Property, Plant and Equipment

	Freehold land and buildings* £m	Short leasehold buildings £m	Motor vehicles £m	Plant and fixtures* £m	Total £m
Cost					
At 1 July 2018	39.4	4.2	0.5	40.0	84.1
Additions	2.5	–	–	9.0	11.5
Acquired through business combinations (Restated*)	4.6	–	0.2	1.9	6.7
Disposals	–	–	(0.1)	(2.1)	(2.2)
Foreign exchange adjustments	0.4	–	(0.2)	0.5	0.7
At 30 June 2019 and 1 July 2019 (Restated*)	46.9	4.2	0.4	49.3	100.8
Additions	0.1	3.4	2.0	8.4	13.9
Acquired through business combinations	1.9	0.1	–	1.4	3.4
Changes in accounting policy	–	9.2	3.1	0.4	12.7
Disposals	–	–	(0.2)	(1.4)	(1.6)
Foreign exchange adjustments	(0.8)	0.1	(0.1)	(0.6)	(1.4)
At 30 June 2020	48.1	17.0	5.2	57.5	127.8
Accumulated Depreciation					
At 1 July 2018	13.2	2.7	0.3	22.6	38.8
Charge for the year	1.2	0.3	0.1	4.1	5.7
Disposals	–	–	(0.1)	(2.1)	(2.2)
Foreign exchange adjustments	0.1	–	(0.1)	0.1	0.1
At 30 June 2019 and 1 July 2019	14.5	3.0	0.2	24.7	42.4
Charge for the year	1.6	1.9	1.7	4.7	9.9
Disposals	–	–	(0.1)	(1.3)	(1.4)
Foreign exchange adjustments	0.1	0.1	–	0.3	0.5
At 30 June 2020	16.2	5.0	1.8	28.4	51.4
Net book value					
At 30 June 2020	31.9	12.0	3.4	29.1	76.4
At 30 June 2019 (Restated*)	32.4	1.2	0.2	24.6	58.4
Net book value of right-of-use-assets					
At 30 June 2020	–	11.2	3.4	0.3	14.9
At 30 June 2019	–	–	–	–	–
				2020	2019
				£m	£m
Contracted capital commitments				1.1	0.8
Assets in the course of construction included above				5.8	4.7

* Restated as detailed in note 31 Acquisitions.

14. Impairment Reviews

Goodwill and indefinite life assets are tested for impairment annually, or more frequently if there are indications that amounts might be impaired. The impairment tests involve determining the recoverable amount of the relevant asset or cash generating unit, which corresponds to the higher of the fair value less costs to sell or its value in use. In the Group's case, the recoverable amount is based on the value in use calculations.

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. A review was performed to establish that the carrying value of individual products capitalised are reflective of the projected cash flow generation 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.

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14. Impairment Reviews continued

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 for years three, four and five of 3.0% (2019: 3.0 %) for Dechra Veterinary Products EU and Dechra Veterinary Products NA and 9.5% (2019: 11.0%) for Dechra Veterinary Products International; and
- Thereafter, a terminal value is calculated based on year five cash flows, and assuming a long term growth rate of 0% (2019: 0%) for Dechra Veterinary Products EU and Dechra Veterinary Products NA and 1.2% (2019: 1.5%) for Dechra Veterinary Products International.

The projections covered a period of five years as we believe this to be the most appropriate timescale over which to review and consider annual performances before applying a fixed terminal value.

Value in use calculations were performed at 30 June 2020 for the following assets:

	2020			
	Goodwill carrying value £m	Indefinite life assets carrying value £m	Total value £m	Pre-tax discount rate %
Cash generating unit				
Dechra Veterinary Products EU	172.2	0.9	173.1	9.8
Dechra Veterinary Products NA	63.4	–	63.4	10.7
Dechra Veterinary Products International	18.2	–	18.2	13.8
	253.8	0.9	254.7	
Restated* 2019				
	Goodwill carrying value £m	Indefinite life assets carrying value £m	Total value £m	Pre-tax discount rate %
Cash generating unit				
Dechra Veterinary Products EU	163.0	0.9	163.9	12.4
Dechra Veterinary Products NA	54.9	–	54.9	12.5
Dechra Veterinary Products International	27.8	–	27.8	17.1
	245.7	0.9	246.6	

* Restated as detailed in note 31 Acquisitions.

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 used (as set out above) reflect an 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.

15. Deferred Taxes

(a) Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020	Restated* 2019	2020	Restated* 2019	2020	Restated* 2019
	£m	£m	£m	£m	£m	£m
Intangible assets	-	-	(62.4)	(75.9)	(62.4)	(75.9)
Property, plant and equipment	-	-	(4.0)	(3.8)	(4.0)	(3.8)
Inventories	1.4	1.8	-	-	1.4	1.8
Receivables/payables	3.2	1.4	-	-	3.2	1.4
Share-based payments	0.7	1.0	-	-	0.7	1.0
Losses	0.5	1.6	-	-	0.5	1.6
R&D tax credits	0.3	-	-	-	0.3	-
Employee benefit obligations	0.4	0.3	-	-	0.4	0.3
	6.5	6.1	(66.4)	(79.7)	(59.9)	(73.6)

(b) Unrecognised Deferred Tax

The aggregate amount of gross temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised is £1.2 million (2019: £1.0 million). The estimated unprovided deferred tax liability in relation to these temporary differences is £0.1 million (2019: £0.1 million).

Deferred tax assets in relation to losses amounting to £1.1 million (2019: £0.7 million) have not been recognised due to uncertainty over their recoverability. Included within unrecognised losses are £1.1 million of losses which expire prior to 2030. Other losses may be carried forward indefinitely.

(c) Movements During the Year

	Balance at 30 June 2018	Recognised in income	Restated* Acquired through business combinations	Recognised in equity/OCI	Restated* Foreign exchange adjustments	Restated* Balance at 30 June 2019
	£m	£m	£m	£m	£m	£m
Intangible assets	(98.4)	25.6	(0.3)	-	(2.8)	(75.9)
Property, plant and equipment	(3.4)	(0.3)	-	-	(0.1)	(3.8)
Inventories	0.9	1.0	-	-	(0.1)	1.8
Receivables/payables	2.8	(1.6)	-	-	0.2	1.4
Share-based payments	2.4	(0.2)	-	(1.2)	-	1.0
Losses	2.1	(0.5)	-	-	-	1.6
R&D tax credits	1.2	(1.1)	-	-	(0.1)	-
Employee benefit obligations	1.0	(0.7)	-	-	-	0.3
	(91.4)	22.2	(0.3)	(1.2)	(2.9)	(73.6)

	Restated* Balance at 30 June 2019	Recognised in income	Acquired through business combinations	Recognised in equity/OCI	Foreign exchange adjustments	Balance at 30 June 2020
	£m	£m	£m	£m	£m	£m
Intangible assets	(75.9)	14.9	-	-	(1.4)	(62.4)
Property, plant and equipment	(3.8)	(0.1)	-	-	(0.1)	(4.0)
Inventories	1.8	(0.3)	-	-	(0.1)	1.4
Receivables/payables	1.4	-	-	1.8	-	3.2
Share-based payments	1.0	-	-	(0.3)	-	0.7
Losses	1.6	(1.0)	-	-	(0.1)	0.5
R&D tax credits	-	0.3	-	-	-	0.3
Employee benefit obligations	0.3	0.1	-	-	-	0.4
	(73.6)	13.9	-	1.5	(1.7)	(59.9)

* Restated as detailed in note 31 Acquisitions.

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15. Deferred Taxes continued

Deferred tax assets and liabilities are analysed in the statement of financial position after offset, to the extent there is a legally enforceable right, of balances within countries as follows:

	2020	Restated* 2019
	£m	£m
Deferred tax assets	2.7	0.9
Deferred tax liabilities	(62.6)	(74.5)
	(59.9)	(73.6)

* Restated as detailed in note 31 Acquisitions.

16. Inventories

	2020	Restated* 2019
	£m	£m
Raw materials and consumables	28.9	25.2
Work in progress	10.9	8.3
Finished goods and goods for resale	81.0	70.0
	120.8	103.5

* Restated as detailed in note 31 Acquisitions.

Included in finished goods and goods for resale £nil (2019: £nil) of inventory held at net realisable value having been acquired through business combinations.

17. Trade and Other Receivables

	2020	Restated* 2019
	£m	£m
Trade receivables	79.4	91.1
Other receivables	11.1	4.8
Prepayments and accrued income	3.4	3.9
	93.9	99.8

* Restated as detailed in note 31 Acquisitions.

18. Cash and Cash Equivalents

	2020	2019
	£m	£m
Cash at bank and in hand	227.4	80.3

19. Trade and Other Payables

	2020	2019
	£m	£m
Trade payables	34.6	31.9
Other payables	3.1	1.9
Other taxation and social security	7.4	5.1
Accruals	53.1	56.6
	98.2	95.5

20. Current Tax Assets & Liabilities

	2020	2019
	£m	£m
Corporation tax receivable	6.8	7.9
Corporation tax payable	(25.6)	(16.3)
	(18.8)	(8.4)

21. Borrowings and lease liabilities

	2020 £m	2019 £m
Current liabilities:		
Lease liabilities	3.2	–
Bank loans	1.4	1.2
	4.6	1.2
Non-current liabilities:		
Lease liabilities	11.8	–
Senior loan notes	127.1	–
Bank loans	214.2	309.6
Arrangement fees netted off	(2.7)	(2.7)
	350.4	306.9
Total borrowings	355.0	308.1

On 1 October 2019 the Accordion facility on the Revolving Credit Facility of £235.0 million was invoked, removing the Accordion facility and increasing the committed facilities on the Revolving Credit Facility to £340.0 million. During the year the drawings on the Revolving Credit Facility have been restructured such that £179.0 million has been drawn on the facility and £143.7 million repaid. At 30 June 2020, £214.2 million was drawn against the £340.0 million Revolving Credit Facility maturing 25 July 2024. The facility is not secured on any specific assets of the Group but is supported by a joint and several cross guarantee structure. Interest is charged on this facility at a minimum of 1.30% over LIBOR and a maximum of 2.20% over LIBOR, dependent upon the Leverage (the ratio of Total Net Debt to Adjusted EBITDA) of the Group. As at 30 June 2020, interest being charged on this facility is 1.70% above LIBOR. All covenants were met during the year ended 30 June 2020.

In January 2020 the Group undertook a Private Placement raising £118.3 million in the form of EUR50.0 million and USD100.0 million (under seven and ten year new senior secured notes respectively). At 30 June 2020, £127.1 million was drawn under the Private Placement. The Private Placement amounts are not secured on any specific assets of the Group, but are supported by a joint and several cross guarantee structure. Interest is charged on the EUR50.0 million amount at a fixed rate of 1.19% until maturity (January 2027). Interest is charged on the USD100.0 million amount at a fixed rate of 3.34% until maturity (January 2030).

The drawings on the Private Placement, together with a restructuring of the drawings on the Revolving Credit Facility, enabled £126.7 million drawn on the £350.0 million Term Loan Facility, due to mature in December 2020, to be fully repaid and cancelled in January 2020.

Arrangement fees of £1.7 million were incurred on the two facilities during the year, these being released to the income statement over the life of the facility.

No interest has been capitalised during the year (2019: £nil).

Genera also has borrowing facilities of £4.6 million, of which £1.4 million (2019: £2.7 million) was drawn down at 30 June 2020. Interest is fixed at 3.1%.

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

	2020 £m	2019 £m
Payable:		
Within one year	1.4	1.2
Between one and two years	–	180.5
Between two and five years	214.2	129.1
Over five years	127.1	–
	342.7	310.8

The maturity of the lease liabilities is as follows:

	2020 £m	2019 £m
Payable:		
Within one year	3.2	–
Between one and two years	2.5	–
Between two and five years	4.0	–
Over five years	5.3	–
	15.0	–

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

Notes to the Consolidated Financial Statements

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22. Provisions

	Deferred Rent £m	Provision for PPE grant £m	Environmental, Health & Safety Grant £m	Dilapidations £m	Total £m
At start of period	(0.5)	(1.2)	(0.3)	–	(2.0)
Acquired through business combinations	–	–	–	(0.4)	(0.4)
Provision recognised	–	(0.7)	–	–	(0.7)
Provision utilised	0.1	0.5	–	–	0.6
Foreign exchange differences	–	–	–	–	–
At end of period	(0.4)	(1.4)	(0.3)	(0.4)	(2.5)

The Group has received advanced payment for rental income on its facilities in Portland. This has been recognised at amortised cost and is being utilised over the period of the rental contract.

Genera has received advanced funding (PPE grant) for the refurbishment of the manufacturing facility for a third party manufacturing contract. The funding has been recognised at amortised cost and is being utilised over the life of the property, plant and equipment.

On the acquisition of Genera, the Group established a fair value provision to address existing legal and environmental compliance. A provision is recognised at the present value of the costs to be incurred for the remediation of the manufacturing site.

On the acquisition of Ampharmco, the Group established a fair value provision for dilapidations of a warehouse property.

23. Employee Benefit Obligations

In the prior year and for the period to 31 December 2018 the Group sponsored a defined benefit pension scheme in the Netherlands. This was a funded career average pay arrangement, where pensionable salary was subject to a cap and was financed through an insurance contract. The scheme ceased on 31 December 2018.

From 1 January 2019 the employee pension benefit in the Netherlands is being provided through contributions to a new defined contribution scheme and the Group's obligations under the previous pension arrangement ceased. Accordingly the Group ceased to recognise assets and liabilities in respect of the previous arrangement from 1 January 2019 and recognised a curtailment gain of £3.5 million through the income statement.

The other defined benefit pension arrangements operated by the Company are unfunded: Jubilee awards of £0.1 million (2019: £0.1 million) for employees in the Netherlands are recognised within other payables in the Consolidated Statement of Financial Position as at 30 June 2020.

The pension cost relating to the defined benefit pension arrangement in the Netherlands was assessed in accordance with the advice of an independent qualified actuary using the projected unit method.

The major actuarial assumptions used by the actuary as part of the valuation of the scheme in the prior year were:

	2020	31 December 2018
Discount rate	–	1.90%
Inflation assumption	–	1.90%
Salary growth	–	2.40%
Rate of increase in accrued pensions of active members	–	0.34%
Rate of increase in pensions in payment	–	0.00%
Rate of increase in pensions in deferment	–	0.00%

In valuing the liabilities of the pension scheme at 31 December 2018 mortality assumptions were made as indicated below.

The mortality assumption follows the Prognosetafel AG2016 (2018: Prognosetafel AG2016) mortality tables with an experience adjustment in line with the ES-P2 tables as published by the Dutch Alliance of Insurers.

Assumed life expectations on retirement age applied at 31 December 2018	Male	Female
Retiring today (age 68)	18.7	20.6
Retiring in 20 years (age 48)	20.8	22.7

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.

23. Employee Benefit Obligations continued

Movements in Present Value of Defined Benefit Obligations

	2020 £m	2019 £m
Defined benefit obligation at beginning of the period	-	20.3
Service cost	-	0.6
Interest cost	-	0.2
Employee contributions	-	0.1
- Loss from change in financial assumptions	-	0.1
- Gain from change in demographic assumptions	-	(0.3)
- Experience losses	-	-
Settlement	-	(17.5)
Curtailment	-	(3.5)
Foreign exchange difference on translation	-	-
Defined benefit obligations at end of the period	-	-

Movements in Fair Value of Scheme Assets

	2020 £m	2019 £m
Fair value of scheme assets at beginning of the period	-	17.3
Interest income	-	0.2
Additional charges	-	(0.1)
Employer contributions	-	0.3
Employee contributions	-	0.1
- Premium adjustment	-	0.1
- Return on plan assets	-	(0.3)
Settlement	-	(17.5)
Foreign exchange difference on translation	-	(0.1)
Fair value of scheme assets at end of the period	-	-

Analysis of the Amount Credited to the Income Statement

	2020 £m	2019 £m
Service cost	-	0.6
Gain on curtailment of pension scheme	-	(3.5)
Additional charges	-	0.1
Net pension (credit)/expense	-	(2.8)

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

	2020 £m	2019 £m
Amounts charged in previous periods	-	0.5
Actuarial (gain)/loss on defined benefit pension scheme	-	-
Net pension expense	-	0.5

Scheme Assets

The Group's defined benefit pension scheme in the Netherlands was financed through an insurance contract. Under this contract, a market price for the assets in respect of this insurance contract was not available. In accordance with IAS 19 for such insurance policies, an asset value was calculated by discounting expected future cash flows. The discount rate used for this calculation reflected the risk associated with the scheme assets and the maturity or expected disposal date of those assets. The scheme had no assets at 30 June 2020 (2019: £nil).

Notes to the Consolidated Financial Statements

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23. Employee Benefit Obligations continued

Scheme Assets continued

The long term rate of return on pension plan assets was determined by aggregating the expected return for each asset class over the strategic asset allocation as at the year end. This rate of return was then adjusted for any expected profit sharing based on market related returns on notional loans.

History of Amounts in the Current Period

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Present value of funded defined benefit obligations	–	–	(20.3)	(17.9)	(17.4)
Fair value of scheme assets	–	–	17.3	14.9	13.6
Deficit in the scheme	–	–	(3.0)	(3.0)	(3.8)

24. Financial Instruments and Related Disclosures

The Group's financial instruments comprise bank loans and overdrafts, lease liabilities, derivatives used for hedging purposes and trade receivables and payables.

Treasury Policy

The Group reports in Sterling and pays dividends out of Sterling profits. The role of the Group's treasury activities is to manage and monitor the Group's external and internal funding requirements and change to financing risks in support of the Group's corporate activities.

The Board of Directors has approved a policy which governs all treasury activities.

The Group uses a variety of financial instruments, including derivatives, to finance its operations and to manage market risks from these operations. Derivatives, principally comprising forward foreign currency contracts, foreign currency options and interest rate swaps, are used to hedge against changes in foreign currencies and interest rates. Hedges of net investments in foreign operations are also used in the management of foreign currency risk.

The Group does not hold or issue derivative financial instruments for speculative purposes and the Group's treasury policy specifically prohibits such activity. All transactions in financial instruments are undertaken to manage the risks arising from underlying business activities, not for speculation.

The Group has implemented physical cash pooling in the prior year. This has resulted in increased cash being held in Dechra Pharmaceuticals PLC as the Master Account Holder.

Capital Management

The capital structure of the Group consists of net borrowings and shareholders' equity. At 30 June 2020, net borrowing was £127.6 million (2019: net borrowing was £227.8 million), whilst shareholders' equity was £637.5 million (2019: £509.1 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 (the ratio of underlying EBITDA to interest costs), and leverage (the ratio of total net debt to underlying EBITDA). The Group complied with these covenants in 2020 and 2019.

Operating cash flow is used to fund investment in the development of new products as well as to make the routine outflows of capital expenditure, tax, dividends and repayment of maturing debt.

The Group's policy is to maintain borrowing facilities centrally which are then used to finance the Group's operating subsidiaries, either by way of equity investments or loans.

24. Financial Instruments and Related Disclosures continued

Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- liquidity risk
- market risk
- credit risk

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk.

Liquidity Risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet liabilities as they fall due. Cash flows and covenants of the Group are monitored half-yearly. These are reviewed to ensure that sufficient financial headroom exists for at least a 12 month period.

The Group manages its funding requirements through the following lines of credit:

- £340.0 million multi-currency revolving credit facility;
- Private Placements in the amounts of USD100.0 million and EUR50.0 million;
- £15.0 million lease liabilities; and
- £4.6 million bank loans;

The Group's revised borrowing facilities at 30 June 2020 are detailed in note 21.

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 Group's borrowings bear interest at both floating rates linked to base rate or LIBOR and fixed rates, thereby reducing the exposure to cash flow interest rate risk.

Foreign Exchange Risk Management

Foreign currency transaction exposure arising on normal trade flows is not hedged. The Group matches receipts and payments in the relevant foreign currencies as far as practicable. To this end, bank accounts are maintained for all the major currencies in which the Group trades. Translational exposure in converting the income statements of foreign subsidiaries into the Group's presentational currency of Sterling is not hedged.

The Group hedges selectively expected currency cash flows outside normal trading activities. The Group has designated a US Dollar borrowing of \$97.0 million as a net investment hedge of US Dollar net assets. Cash flows in relation to the acquisition of Mirataz were hedged using a cash flow hedge during the year.

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 £90.5 million (2019: £95.9 million), which is the total carrying value of the Group's financial assets excluding cash and cash equivalents.

The Group offers trade credit to customers in the normal course of business. Trade and bank references are obtained prior to extending credit.

Our principal customers are pharmaceutical wholesalers and distributors. The failure of a large wholesaler could have a material adverse impact on the Group's financial results.

The largest customer of the Group sits within the NA Pharmaceuticals segment and accounted for approximately 21.4% of gross trade receivables at 30 June 2020 (2019: 22.0%). This customer accounted for 20.0% (2019: 20.4%) of total Group revenues. One other customer accounted for more than 10% of total Group revenues (2019: one).

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Notes to the Consolidated Financial Statements

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24. 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 2020 and 30 June 2019. The following assumptions were used to estimate the fair values:

- Cash and cash equivalents – approximated to the carrying amount.
- 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.
- Borrowings, bank loans and overdrafts – based upon discounted cash flows using discount rates based upon facility rates.

Analysis of Financial Instruments

The financial instruments of the Group measured at amortised cost are analysed as follows:

	2020		Restated* 2019	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Financial assets measured at amortised cost				
– cash and cash equivalents	227.4	227.4	80.3	80.3
– trade receivables	79.4	79.4	91.1	91.1
– other receivables	11.1	11.1	4.8	4.8
Total financial assets	317.9	317.9	176.2	176.2
Financial liabilities				
Bank loans and overdrafts	(215.6)	(215.6)	(310.8)	(310.8)
Senior loan notes	(127.1)	(126.8)	–	–
Lease liabilities	(15.0)	(15.0)	–	–
Trade payables	(34.6)	(34.6)	(31.9)	(31.9)
Other payables	(3.1)	(3.1)	(1.9)	(1.9)
Accruals	(53.1)	(53.1)	(56.6)	(56.6)
Contingent consideration	(56.2)	(56.2)	(36.0)	(36.0)
Total financial liabilities	(504.7)	(504.4)	(437.2)	(437.2)
Net financial liabilities	(186.8)	(186.5)	(261.0)	(261.0)

* Restated as detailed in note 31 Acquisitions.

Senior loan notes are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of borrowings is estimated by discounting contractual future cash flows (Level 2 as defined by IFRS 13).

Fair Value Hierarchy

The table below analyses the Group's financial instruments carried at fair value, by valuation method. Where possible, quoted prices in active markets are used (Level 1). Where such prices are not available, the asset or liability is classified as Level 2, provided all significant inputs to the valuation model used are based on observable market data. If one or more of the significant inputs to the valuation model is not based on observable market data, the instrument is classified as Level 3. There were no transfers between Level 1 and Level 2 during the year.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
30 June 2020				
Financial instruments held at fair value through the profit and loss	–	–	–	–
Derivative financial liabilities	–	–	–	–
Contingent consideration	–	–	(56.2)	(56.2)
Total	–	–	(56.2)	(56.2)
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
30 June 2019				
Financial instruments held at fair value through the profit and loss	–	–	–	–
Derivative financial liabilities	–	–	–	–
Contingent consideration	–	–	(36.0)	(36.0)
Total	–	–	(36.0)	(36.0)

24. Financial Instruments and Related Disclosures continued

Fair Value Hierarchy continued

Contingent consideration is recorded at fair value based on risk-adjusted future cash flows discounted using appropriate interest rates, which are reviewed annually. The inputs relating to future cash flows will include cash flows relating to the relevant contractual arrangements. There would be no material effect on the amounts stated from any reasonably probable change in such inputs at 30 June 2020. Refer to note 4 for amounts recognised in the Consolidated Income Statement in the year. Quantified information about significant unobservable inputs in disclosed within note 32.

Credit Risk

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics, and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 months before 30 June 2020 and the corresponding historical losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The loss allowance provision as at 30 June 2020 and 30 June 2019 is determined as follows:

	Not due	Past due (up to one month)	Past due (one to three months)	Past due (over three months)	Total
	£m	£m	£m	£m	£m
30 June 2020					
Expected loss rate	0.02%	0.02%	0.02%	75.0%	
Gross carrying amount – trade receivables	76.0	3.0	0.5	0.6	80.1
Loss allowance	–	–	–	0.1	0.1
Specific loss allowance	–	0.1	–	0.5	0.6
Total loss allowance	–	0.1	–	0.6	0.7
	Not due	Past due (up to one month)	Past due (one to three months)	Past due (over three months)	Total
	£m	£m	£m	£m	£m
30 June 2019					
Expected loss rate	0.03%	0.03%	0.03%	75.0%	
Gross carrying amount – trade receivables	85.8	4.2	1.3	0.9	92.2
Loss allowance	–	–	–	0.2	0.2
Specific loss allowance	0.2	–	–	0.7	0.9
Total loss allowance	0.2	–	–	0.9	1.1

The movement in the loss allowances for trade debtors at 30 June 2020 reconcile to the opening loss allowances as follows:

	2020 £m	2019 £m
At start of period	1.1	0.6
Impairment provision (released)/ recognised	(0.4)	0.6
Impairment provision utilised	–	(0.1)
At end of period	0.7	1.1

Notes to the Consolidated Financial Statements

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24. Financial Instruments and Related Disclosures continued

Liquidity Risk – Contracted Cash Flows of Financial Liabilities

The following table shows the cash flow commitments of the Group in respect of financial liabilities at 30 June 2020 and 30 June 2019. Where interest is at floating rates, the future interest payments have been estimated using current interest rates:

	Contingent consideration	Bank loans and senior loan notes	Lease liabilities	Trade, other payables and accruals	Total
	£m	£m	£m	£m	£m
At 30 June 2020					
Carrying value	(56.2)	(340.0)	(15.0)	(90.8)	(502.0)
Arrangement fees netted off	–	(2.7)	–	–	(2.7)
Future interest	(27.6)	(2.1)	(2.3)	–	(32.0)
Total committed cash flow	(83.8)	(344.8)	(17.3)	(90.8)	(536.7)
Payable:					
Within 6 months	(4.5)	(2.7)	(2.1)	(85.3)	(94.6)
Between 6 months and 1 year	(5.0)	(0.8)	(1.6)	(5.4)	(12.8)
Between 1 and 2 years	(4.1)	–	(2.9)	(0.1)	(7.1)
Between 2 and 3 years	(9.6)	–	(1.9)	–	(11.5)
Between 3 and 4 years	(6.2)	–	(1.4)	–	(7.6)
Between 4 and 5 years	(5.3)	(214.2)	(1.1)	–	(220.6)
Over 5 years	(49.1)	(127.1)	(6.3)	–	(182.5)
	(83.8)	(344.8)	(17.3)	(90.8)	(536.7)
	Contingent consideration	Bank loans and overdrafts	Lease liabilities	Trade, other payables and accruals	Total
	£m	£m	£m	£m	£m
At 30 June 2019					
Carrying value	(36.0)	(308.1)	–	(90.4)	(434.5)
Arrangement fee	–	(2.7)	–	–	(2.7)
Future interest	(26.4)	(1.9)	–	–	(28.3)
Total committed cash flow	(62.4)	(312.7)	–	(90.4)	(465.5)
Payable:					
Within 6 months	(2.9)	(2.6)	–	(90.4)	(95.9)
Between 6 months and 1 year	(2.7)	(0.6)	–	–	(3.3)
Between 1 and 2 years	(10.7)	(180.7)	–	–	(191.4)
Between 2 and 3 years	(9.3)	–	–	–	(9.3)
Between 3 and 4 years	(3.2)	–	–	–	(3.2)
Between 4 and 5 years	(3.8)	–	–	–	(3.8)
Over 5 years	(29.8)	(128.8)	–	–	(158.6)
	(62.4)	(312.7)	–	(90.4)	(465.5)

24. Financial Instruments and Related Disclosures continued

Foreign Currency Exposure

The Sterling equivalents of financial assets and liabilities denominated in foreign currencies at 30 June 2020 and 30 June 2019 were:

	Australian Dollar £m	Danish Krone £m	Euro £m	US Dollar £m	Other £m
At 30 June 2020					
Financial assets					
Trade receivables	-	-	8.3	1.2	1.5
Other receivables	-	-	0.6	0.5	-
Cash balances	4.2	1.0	33.7	19.3	14.7
	4.2	1.0	42.6	21.0	16.2
Financial liabilities					
Bank loans and overdrafts	-	-	(47.0)	(97.8)	-
Lease liabilities	-	-	(0.3)	-	-
Trade payables	-	-	(7.3)	(1.0)	-
Other payables	-	-	(0.1)	-	-
Accruals	(0.1)	-	(2.7)	-	(1.0)
Deferred consideration	(33.0)	-	(5.9)	(16.4)	-
	(33.1)	-	(63.3)	(115.2)	(1.0)
Net balance sheet exposure	(28.9)	1.0	(20.7)	(94.2)	15.2
	Australian Dollar £m	Danish Krone £m	Euro £m	US Dollar £m	Other £m
At 30 June 2019					
Financial assets					
Trade receivables	-	-	7.8	0.5	1.6
Other receivables	-	-	0.1	-	-
Cash balances	0.6	-	31.7	15.2	15.7
	0.6	-	39.6	15.7	17.3
Financial liabilities					
Bank loans and overdrafts	-	(2.2)	(2.7)	(92.2)	-
Trade payables	-	-	(2.7)	(0.4)	-
Lease liabilities	-	-	-	-	-
Other payables	-	-	(0.7)	(0.3)	-
Accruals	-	-	-	-	-
Deferred consideration	(21.9)	-	(6.7)	(6.6)	-
	(21.9)	(2.2)	(12.8)	(99.5)	-
Net balance sheet exposure	(21.3)	(2.2)	26.8	(83.8)	17.3

Notes to the Consolidated Financial Statements

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24. Financial Instruments and Related Disclosures continued

Sensitivity Analysis

Interest Rate Risk

A 2.0% increase in annual interest rates compared to those ruling at 30 June 2020 would reduce Group profit before taxation and equity by £6.3 million (2019: £6.0 million).

Foreign Currency Risk

The Group has significant cash flows and net financial assets and liabilities in Danish Krone, US Dollar and Euro. The Group does not hedge either economic exposure or the translation exposure arising from the profits of non-Sterling businesses. The Group is hedging certain foreign currency translations through the designation of a US Dollar loan as a net investment hedge of US Dollar net assets.

During 2020, the Group have been exposed to transactional and translational currency risk. In addition to the transactional gain of £2.9 million being recognised in the Consolidated Income Statement, £7.1 million foreign exchange loss translational impact was recognised in the Consolidated Statement of Comprehensive Income in the year.

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

The following table shows the impact on the Group's profit after taxation of a 10% appreciation of Sterling against each of these currencies compared to the rates prevailing at the year end date. In this analysis, only financial assets and liabilities held on the balance sheet at the year end are assessed and are only considered sensitive to foreign exchange rates where they are not in the functional currency of the entity that holds them. There is no impact on other equity reserves.

	Profit after taxation £m
Australian Dollar	(2.6)
Danish Krone	0.1
Euro	(1.9)
US Dollar	(1.3)

The sensitivities on the previous page represent the Directors' view of reasonably possible changes in each risk variable, not worst case scenarios or stress tests. The outputs from the sensitivity analysis are estimates of the impact of the effect of changes in market risks assuming that the specified changes occur at the year end and are applied to the risk exposures at that date. Accordingly, they show the impact on profitability and the balance sheet from such movements.

Actual results in the future may differ materially from these estimates due to commercial actions taken to mitigate any potential losses from such rate movements, to the interaction of more than one sensitivity occurring and to further developments in global financial markets. As such, this table should not be considered as a projection of likely future gains and losses.

25. Share Capital

	Ordinary shares of 1 pence each			
	2020		2019	
	£m	Number	£m	Number
Allotted, called up and fully paid at start of year	1.0	102,651,602	1.0	102,329,635
New shares issued	0.1	5,359,358	–	321,967
Allotted, called up and fully paid at end of year	1.1	108,010,960	1.0	102,651,602

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, 226,858 new ordinary shares of 1 pence each (2019: 321,967 new ordinary shares of 1 pence each) were issued following the exercise of options under the Long Term Incentive Plan, the Approved, the Unapproved and the SAYE share option schemes. The consideration received was £981,083 (2019: £1,239,011). The holders of ordinary shares are entitled to receive dividends as declared or approved at General Meetings from time to time and are entitled to one vote per share at such meetings of the Company.

The Company issued 5,132,500 shares of 1 pence each by way of a placing at an issue price of 2600 pence per share on 8 June 2020. The placing generated gross proceeds of £133.4 million. The placing price of 2600 pence per share was a 5.3% discount to the closing middle market share price on 3 June 2020, being the date of the placing announcement.

26. Own Shares

	2020	2019
	£m	£m
At start of the period	–	0.4
Recycled to retained earnings	–	(0.4)
Purchase of own shares	–	–
At end of period	–	–

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). There were no ordinary shares held by the Employee Benefit Trust at 30 June 2020 (2019: none).

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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 2008, the Save As You Earn (SAYE) Share Option Scheme, the Long Term Incentive Plan 2017 and the Global SAYE Plan 2018 as described below:

Unapproved and Approved Share Option Schemes

Under these Schemes, options are granted to certain Executives and employees of the Group (excluding Executive Directors) to purchase shares in the Company at a price fixed at the average market value over the three days prior to the date of grant. For the options to vest, there must be an increase in earnings per share of at least 12% above the growth in the UK Retail Prices Index (RPI) over a three year period. Once vested, options must be exercised within ten years of the date of grant.

Long Term Incentive Plan 2008

Vesting is dependent on two performance conditions which must be satisfied over a three year performance period commencing from the start of the financial year within which the award is granted. 50% of the award will vest dependent on the Company's TSR performance against an appropriate comparator group. 50% of the award will vest subject to a performance condition based on annual earnings per share targets. Each of the TSR and EPS elements is subject to an additional ROCE underpin. Unless the Company's ROCE is 10% or more in the final year of the performance period, the award will lapse in full.

SAYE Option Scheme

This scheme is open to all UK employees. Participants save a fixed amount of up to £500 per month for either three or five years and are then able to use these savings to buy shares in the Company at a price fixed at a 20% discount to the market value at the start of the savings period. Prior to 16 October 2012, participants were able to save for a seven year period. The SAYE options must ordinarily be exercised within six months of the completion of the relevant savings period. The exercise of these options is not subject to any performance criteria.

Long Term Incentive Plan 2017

(a) Long Term Incentive Plan Awards

Vesting is dependent on three performance conditions which must be satisfied over a three year performance period commencing from the start of the financial year within which the award is granted. One third of each award is subject to a performance condition based on the Company's TSR performance over the performance period relative to an appropriate comparator over the performance period. Two thirds of each award is subject to a performance condition based on the growth in the Group's underlying diluted EPS over the performance period. Both the TSR element and the EPS element are subject to an additional ROCE performance measure. Unless the Group's ROCE is 10% or more in the final year of the performance period, the awards will lapse in full regardless of TSR and EPS performance. For the purposes of this note they are detailed under the heading Long Term Incentive Plan.

(b) Qualifying LTIP Awards

In addition, awards can be structured as Qualifying LTIP Awards, consisting of a Company Share Option Plan (CSOP) option and a nil-cost LTIP award, with the ordinary award scaled back at exercise to take account of any gain made on exercise of the CSOP option. The Qualifying LTIP Awards are granted to the UK Senior Executive Team which includes the UK resident Executive Directors. The performance conditions are the same as those attached to the awards granted under Approved Share Option Schemes and Long Term Incentives Plan 2017. For the purposes of this note they are detailed under the heading Long Term Incentive Plan (Qualifying LTIP Awards).

(c) Market Value Options

Market value options may be granted under the LTIP 2017 as tax-advantaged CSOP options and as Unapproved share options. These options are granted to certain Executives and employees of the Group (excluding Executive Directors) to purchase shares in the Company at a price fixed at the average market value over the three days prior to the date of grant. For the options to vest, there must be an increase in earnings per share of at least 12% above the growth in the UK Retail Prices Index (RPI) over a three year period. Once vested, options must be exercised within ten years of the date of grant. For the purposes of this note they are detailed under the headings Unapproved and Approved Share Option Schemes.

Global SAYE Plan 2018

The Global SAYE Plan 2018 is an international share option plan, with two schedules, one of which is a UK SAYE Scheme and the other operates as a qualifying Employee Stock Purchase Plan for the benefit of employees in the USA. This scheme is currently open to all UK and USA employees. Participants save a fixed amount of up to £500 (or the USD equivalent) per month for either three years (UK scheme) or two years (USA Scheme). The employees are then able to use these savings to buy shares in the Company at a price fixed at a 10% discount to the market value at the start of the savings period. The SAYE options must ordinarily be exercised within six months of the completion of the relevant savings period. For USA employees, there is a 12 month holding period that applies. The exercise of these options is not subject to any performance criteria.

27. Share-based Payments continued

Year ended 30 June 2020

	Exercise Period	Exercise price per share Pence	At 1 July 2019 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2020 Number
Unapproved Share Option Scheme							
1 March 2010†*	2013–2020	418.81	2,177	—	—	(2,177)	—
16 September 2013†	2016–2023	721.00	3,000	—	—	—	3,000
11 September 2014†	2017–2024	763.00	7,000	(2,000)	—	—	5,000
15 September 2015†	2018–2025	975.00	18,983	(1,526)	—	—	17,457
18 March 2016†	2019–2026	1118.00	475	(475)	—	—	—
19 September 2016†	2019–2026	1369.00	72,352	(26,489)	—	(3,000)	42,863
2 March 2018	2020–2028	2506.00	98,639	—	—	(5,500)	93,139
26 October 2018	2021–2028	2166.00	120,036	—	—	(6,000)	114,036
6 September 2019	2022–2029	2964.00	—	—	133,929	—	133,929
			322,662	(30,490)	133,929	(16,677)	409,424
Approved Share Option Scheme							
16 September 2013†	2016–2023	721.00	500	(500)	—	—	—
11 September 2014†	2017–2024	763.00	2,000	(2,000)	—	—	—
15 September 2015†	2018–2025	975.00	955	(32)	—	—	923
19 September 2016†	2019–2026	1369.00	9,148	(6,227)	—	—	2,921
2 March 2018	2021–2028	2506.00	7,993	—	—	—	7,993
26 October 2018	2021–2028	2166.00	2,906	—	—	—	2,906
6 September 2019	2022–2029	2964.00	—	—	8,071	—	8,071
			23,502	(8,759)	8,071	—	22,814
Long Term Incentive Plan							
19 September 2016†	2019–2020	—	143,969	(138,687)	—	(5,282)	—
2 March 2018	2020–2021	—	28,240	—	—	(1,282)	26,958
26 October 2018	2021–2022	—	98,679	—	—	—	98,679
6 September 2019	2022–2023	—	—	—	88,232	(3,570)	84,662
			270,888	(138,687)	88,232	(10,134)	210,299
Long Term Incentive Plan (Qualifying LTIP Awards)							
2 March 2018	2021–2028	2506.00	5,136	—	—	—	5,136
2 March 2018	2020–2021	—	49,217	—	—	—	49,217
26 October 2018	2021–2028	2166.00	1,350	—	—	(1,350)	—
26 October 2018	2021–2022	—	3,115	—	—	(3,115)	—
1 March 2019	2022–2029	2429.00	1,235	—	—	(606)	629
1 March 2019	2022–2023	—	4,940	—	—	(2,421)	2,519
			64,993	—	—	(7,492)	57,501
SAYE Option Scheme							
13 October 2014	2017–2020	614.00	13,419	(13,419)	—	—	—
12 October 2015	2018–2021	792.00	15,373	—	—	—	15,373
13 October 2016	2019–2022	1095.00	39,192	(34,413)	—	(948)	3,831
12 October 2017	2020–2023	1646.00	61,576	(759)	—	(4,615)	56,202
29 November 2018	2021–2024	1974.00	33,389	(331)	—	(5,348)	27,710
			162,949	(48,922)	—	(10,911)	103,116
Global SAYE Plan 2018							
4 October 2019	2022–2023	2573.00	—	—	30,073	(2,900)	27,173
16 October 2019	2021–2022	2571.00	—	—	20,632	(1,458)	19,174
			—	—	50,705	(4,358)	46,347
Total			844,994	(226,858)	280,937	(49,572)	849,501
Weighted average exercise price*			994.14p	432.32p	1498.16p	1117.27p	1338.99p

* 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 2020 are 72,164.

Notes to the Consolidated Financial Statements

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27. Share-based Payments continued

Year ended 30 June 2019

	Exercise Period	Exercise price per share Pence	At 1 July 2018 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2019 Number
Unapproved Share Option Scheme							
10 October 2008†*	2011–2018	364.63	2,722	–	–	(2,722)	–
30 March 2009†*	2012–2019	381.15	8,709	(6,532)	–	(2,177)	–
1 March 2010†*	2013–2020	418.81	2,177	–	–	–	2,177
28 February 2011†*	2014–2021	461.97	3,221	(3,221)	–	–	–
10 September 2012†	2015–2022	541.00	13,000	(13,000)	–	–	–
16 September 2013†	2016–2023	721.00	6,765	(3,765)	–	–	3,000
11 September 2014†	2017–2024	763.00	14,341	(7,341)	–	–	7,000
15 September 2015†	2018–2025	975.00	41,255	(22,436)	–	164	18,983
18 March 2016†	2019–2026	1118.00	950	(475)	–	–	475
19 September 2016	2019–2026	1369.00	78,352	–	–	(6,000)	72,352
2 March 2018	2020–2028	2506.00	112,310	–	–	(13,671)	98,639
26 October 2018	2021–2028	2166.00	–	–	130,209	(10,173)	120,036
			283,802	(56,770)	130,209	(34,579)	322,662
Approved Share Option Scheme							
16 September 2013†	2016–2023	721.00	500	–	–	–	500
11 September 2014†	2017–2024	763.00	4,659	(2,659)	–	–	2,000
15 September 2015†	2018–2025	975.00	13,440	(12,485)	–	–	955
18 March 2016†	2019–2026	1118.00	5,050	(5,050)	–	–	–
19 September 2016	2019–2026	1369.00	9,148	–	–	–	9,148
2 March 2018	2021–2028	2506.00	9,190	–	–	(1,197)	7,993
26 October 2018	2021–2028	2166.00	–	–	4,291	(1,385)	2,906
			41,987	(20,194)	4,291	(2,582)	23,502
Long Term Incentive Plan							
15 September 2015	2018–2019	–	155,834	(155,834)	–	–	–
22 March 2016	2019	–	8,786	(5,857)	–	(2,929)	–
19 September 2016	2019–2020	–	149,463	–	–	(5,494)	143,969
10 October 2016	2019–2020	–	5,319	–	–	(5,319)	–
7 March 2017	2019	–	21,033	(21,033)	–	–	–
2 March 2018	2020–2021	–	28,240	–	–	–	28,240
26 October 2018	2021–2022	–	–	–	124,268	(25,589)	98,679
			368,675	(182,724)	124,268	(39,331)	270,888
Long Term Incentive Plan (Qualifying LTIP Awards)							
2 March 2018	2021–2028	2506.00	7,530	–	–	(2,394)	5,136
2 March 2018	2020–2021	–	74,281	–	–	(25,064)	49,217
26 October 2018	2021–2028	2166.00	–	–	1,350	–	1,350
26 October 2018	2021–2022	–	–	–	3,115	–	3,115
1 March 2019	2022–2029	2429.00	–	–	1,235	–	1,235
1 March 2019	2022–2023	–	–	–	4,940	–	4,940
			81,811	–	10,640	(27,458)	64,993
SAYE Option Scheme							
7 April 2014	2017–2019	552.00	20,101	(18,471)	–	(1,630)	–
13 October 2014	2017–2020	614.00	16,378	(431)	–	(2,528)	13,419
12 October 2015	2018–2021	792.00	79,761	(63,536)	–	(852)	15,373
13 October 2016	2019–2022	1095.00	42,484	(519)	–	(2,773)	39,192
12 October 2017	2020–2023	1646.00	69,548	(355)	–	(7,617)	61,576
29 November 2018	2021–2024	1974.00	–	–	34,527	(1,138)	33,389
			228,272	(83,312)	34,527	(16,538)	162,949
Total			1,004,547	(343,000)	303,935	(120,488)	844,994
Weighted average exercise price*			759.65p	360.10p	958.52p	772.84p	994.14p

* 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 2019 are 35,090.

27. Share-based Payments continued

The weighted average exercise price of options eligible to be exercised at 30 June 2020 was 1199.72p (2019: 862.72p). For options exercised during the year, the weighted average market price at the date of exercise was 2777.57p (2019: 2365.36p). The weighted average remaining contractual lives of options outstanding at the Consolidated Statement of Financial Position date was 4.9 years (2019: 4.3 years).

Outstanding options on all Long Term Incentive Plan, Approved and Unapproved plans prior to 30 June 2019 were exercisable at 30 June 2020. No options issued under SAYE plans were exercisable at 30 June 2020 (2019: nil).

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	10/10/16	19/09/16
Number of shares awarded	5,319	149,463
Share price at date of grant	1389p	1379p
Exercise price	Nil	Nil
Expected life	3 years	3 years
Risk-free rate	0.12%	0.12%
Volatility	22%	22%
Dividend yield	1.54%	1.54%
Fair value per share	1108p	1108p

Unapproved and Approved Share Option Schemes

		26/10/18				
Date of grant	06/09/19	& 01/03/19	02/03/18	19/09/16	18/03/16	15/09/15
Number of shares awarded	8,071	6,876	17,917	106,000	6,000	74,000
Share price at date of grant	3036p	2188p	2548p	1379p	1185p	990p
Exercise price	2964p	2166p	2506p	1369p	1188p	975p
Expected life	6.5 years	6.5 years	6.5 years	6.5 years	6.5 years	6.5 years
Risk-free rate	0.31%	1.05%	1.20%	0.47%	1.02%	1.47%
Volatility	28%	28%	23%	26%	26%	27%
Dividend yield	1.00%	0.90%	1.91%	1.54%	1.62%	0.54%
Fair value per share	928p	596p	521p	305p	273p	284p

Long Term Incentive Plan 2017

Valuation date	06/09/19
Award date	06/09/19
Vesting date	30/09/22
Expected exercise	30/09/22

Type of awards	Standalone Nil-cost options		Conditional share awards		Nil-cost options (CSOP linked and standalone options)		Market value options
Holding period restriction	2 years		2 years		N/A		N/A
Number of awards at grant	11,696	23,391	3,661	7,323	14,053	28,108	133,929
Share price at date of grant	3036p	3036p	3036p	3036p	3036p	3036p	3036p
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil	2964p
Expected life	3.07 years	3.07 years	3.07 years	3.07 years	3.07 years	3.07 years	6.50 years
Risk-free rate	0.34%	0.34%	0.34%	0.34%	0.34%	0.34%	0.34%
Volatility	28.2%	28.2%	28.2%	28.2%	28.2%	28.2%	28.2%
Dividend yield	n/a	1.0%	n/a	1.0%	n/a	1.0%	1.0%
Fair value per share	1872p	2647p	1872p	2647p	2080p	2941p	928p

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27. Share-based Payments continued

Long Term Incentive Plan 2017

Valuation date	26/10/18 & 01/03/19
Award date	26/10/18 & 01/03/19
Vesting date	30/09/21
Expected exercise	30/09/21

Type of awards	Standalone Nil-cost options		Conditional share awards		Nil-cost options (CSOP linked and standalone options)		Market value options
Holding period restriction	2 years		2 years		N/A		N/A
Number of awards at grant	23,919	47,838	4,815	9,629	15,374	30,748	130,209
Share price at date of grant	2188p	2188p	2188p	2188p	2188p	2188p	2188p
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil	2166p
Expected life	2.93 years	2.93 years	2.93 years	2.93 years	2.93 years	2.93 years	6.5 years
Risk-free rate	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	1.05%
Volatility	27.95%	27.95%	27.95%	27.95%	27.95%	27.95%	27.95%
Dividend yield	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%
Fair value per share	943p	1939p	943p	1939p	1036p	2131p	596p

Long Term Incentive Plan 2017

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

Type of awards	Nil-cost options (CSOP linked)		Conditional share awards		Nil-cost options (CSOP linked and standalone options)		Market value options
Holding period restriction	2 years		2 years		N/A		N/A
Number of awards at grant	20,459	40,918	4,033	8,066	9,682	19,363	114,113
Share price at date of grant	2506p	2506p	2506p	2506p	2506p	2506p	2506p
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Expected life	2.58 years	2.58 years	2.58 years	2.58 years	2.58 years	2.58 years	6.5 years
Risk-free rate	0.82%	0.82%	0.82%	0.82%	0.82%	0.82%	1.20%
Volatility	23.21%	23.21%	23.21%	23.21%	23.21%	23.21%	23.21%
Dividend yield	1.91%	1.91%	1.91%	1.91%	1.91%	1.91%	1.91%
Fair value per share	1979p	22.50p	19.79p	22.50p	21.33p	24.25p	522p

27. Share-based Payments continued**Save As You Earn Option Scheme and Global SAYE Scheme**

	16/10/2019	04/10/2019	29/11/18	12/10/17	13/10/16	12/10/15
Date of grant	16/10/2019	04/10/2019	29/11/18	12/10/17	13/10/16	12/10/15
Number of shares awarded	20,632	30,073	34,527	73,108	52,877	101,513
Share price at date of grant	2626p	2736p	2136p	2175p	1370p	930p
Exercise price	2517p	2573p	1974p	1646p	1095p	792p
Expected life						
– two year scheme	2.0 years	–	–	–	–	–
– three year scheme	–	3.0 years	3.4 years	3.25 years	3.25 years	3.25 years
– five year scheme	–	–	5.4 years	5.25 years	5.25 years	5.25 years
Risk-free rate						
– two year scheme	0.52%	–	–	–	–	–
– three year scheme	–	0.25%	0.77%	0.54%	0.22%	0.83%
– five year scheme	–	–	0.91%	0.79%	0.44%	1.17%
Volatility						
– two year scheme	32.10%	–	–	–	–	–
– three year scheme	–	28.60%	27.94%	21.6%	22%	22%
– five year scheme	–	–	25.09%	22.2%	24%	26%
Dividend yield	1.20%	1.20%	0.95%	1.91%	1.51%	0.53%
Fair value per share						
– two year scheme	486p	–	–	–	–	–
– three year scheme	–	504p	485p	551p	302p	215p
– five year scheme	–	–	530p	587p	346p	283p

Expected volatility was determined by calculating the historical volatility of the Group's share price over its entire trading history.

National Insurance contributions are payable by the Company in respect of some of the share-based payments. These contributions are payable on the date of exercise based on the intrinsic value of the share-based payments and are therefore treated as cash settled awards. The Group had an accrual at 30 June 2020 of £0.6 million (2019: £1.0 million), of which £0.1 million (2019: £0.2 million) related to vested options. The total charge to the Consolidated Income Statement within administrative expenses in respect of share-based payments was:

	2020	2019
	£m	£m
Equity settled share-based transactions	1.5	2.3
Cash settled share-based transactions	–	0.1
	1.5	2.4

28. Changes in Net Debt

	At 1 July 2019	Cash flows	Acquisitions	Changes in accounting policy	Foreign exchange movements	Other non-cash movements	At 30 June 2020
	£m	£m	£m	£m	£m	£m	£m
Cash and cash equivalents	80.3	143.8	–	–	3.3	–	227.4
Lease liabilities within one year	–	3.6	–	(2.7)	–	(4.1)	(3.2)
Bank loans within one year	(1.2)	1.3	–	–	–	(1.5)	(1.4)
Lease liabilities after one year	–	–	(0.1)	(10.0)	–	(1.7)	(11.8)
Bank loans and senior loan notes after one year	(306.9)	(25.1)	–	–	(6.3)	(0.3)	(338.6)
Net debt	(227.8)	123.6	(0.1)	(12.7)	(3.0)	(7.6)	(127.6)

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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	
	2020	2019	2020	2019	2020	2019
	£m	£m	£m	£m	£m	£m
Within one year	–	1.8	–	1.9	–	3.7
Between one and five years	–	4.5	–	2.5	–	7.0
In five years or more	–	5.7	–	–	–	5.7
	–	12.0	–	4.4	–	16.4

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 primary exchange rates have been used in the translation of the results of foreign operations:

	Average rate for 2019	Closing rate at 30 June 2019	Average rate for 2020	Closing rate at 30 June 2020
Australian Dollar	1.8097	1.8118	1.8784	1.7913
Brazilian Real	4.9686	4.8532	5.6245	6.6986
Danish Krone	8.4651	8.3248	8.5080	8.1681
Euro	1.1345	1.1154	1.1396	1.0960
US Dollar	1.2945	1.2693	1.2601	1.2273

31. Acquisitions

Acquisition of Ampharmco

On 28 August 2019, Dechra acquired 100% of the share capital of Ampharmco LLC and its associated companies Dragon Fire Holdings LLC and Black Griffin Holdings LLC (collectively Ampharmco), together with its manufacturing site based in Fort Worth, Texas. The Group paid £24.3 million (USD29.6 million) consideration in cash.

	Fair value £m
Recognised amounts of identifiable assets acquired	
Property, plant and equipment	3.4
Inventory	1.2
Trade and other receivables	0.4
Trade and other payables	(0.3)
Cash	–
Lease liabilities	(0.1)
Provisions	(0.4)
Intangible assets	15.0
Current tax liabilities	(1.5)
Net identifiable assets	17.7
Goodwill	6.6
Total consideration	24.3
Satisfied by:	
Cash	24.3
Total consideration transferred and net cash outflow arising on acquisition	24.3

The fair value adjustments made principally relate to harmonisation with Group IFRS accounting policies, including the application of fair values on acquisition, principally the recognition of intangible assets in accordance with IFRS 3. The impact of increasing the discount rates used to calculate the acquired intangibles by 1.0% is to reduce the value of the acquired intangible by £1.0 million, with a corresponding increase in goodwill.

31. Acquisitions continued

Acquisition of Ampharmco continued

The goodwill of £6.6 million arising from the acquisition predominantly relates to the future benefits of an FDA registered facility to manufacture solid doses, liquids, creams and ointments, which will significantly strengthen the manufacturing capability for the North American market. No deferred tax arises on acquisition because the tax elections available in the US enable a tax base to be recognised for certain assets identified at that point in time.

Acquisition related costs (included in non-underlying operating expenses) amounted to £1.2 million. Ampharmco's results are reported within the NA Pharmaceuticals Segment.

Ampharmco contributed £2.6 million revenue and £0.6 million loss to the Group's underlying operating profit for the period between the date of acquisition and the balance sheet date. If the acquisition had been completed on the first date of the financial year, the contribution to Group revenues for the period would have been £3.4 million and the contribution to the Group's underlying operating profit would have been £0.7 million loss. The reported operating loss after taking into account non-underlying items for the amortisation of intangible assets would have been £1.7 million.

Acquisition of Mirataz

On 16 March 2020, Dechra acquired the worldwide rights to the *Mirataz* product portfolio from Kindred Biosciences Incorporated for cash consideration of £34.9 million (USD43.0 million) and a royalty on future sales. The acquisition completed on 16 April 2020. The Net Present Value of the future sales royalties has been valued at £10.9 million, and is included within the contingent consideration liability at year end (refer to note 32). The Group has early adopted the amendments to IFRS3 'Business Combinations' and applied the optional concentration test for this transaction. Accordingly, it has been concluded that substantially all the value arising from the transaction relates to the product rights which are recognised as an intangible asset. The total intangible asset recognised in relation to this acquisition is £45.8 million (refer to note 12). A payment of £0.6 million was also made for inventory.

Prior Year Acquisitions

Following the acquisition of Dechra Brazil in December 2018, the fair value of the assets and liabilities acquired have been reconsidered since the Annual Report as at 30 June 2019 as part of the measurement period. In relation to the 30 June 2019 balance sheet, hindsight adjustments have been made as detailed in the table below;

	Reported June 2019 £m	Opening Balance sheet adjustments £m	Restated June 2019 £m
Intangible assets	687.0	(6.4)	680.6
Inventory	104.0	(0.5)	103.5
Trade and other receivables	99.9	(0.1)	99.8
Deferred tax due after more than one year	(81.5)	7.0	(74.5)

A hindsight adjustment has been made within tangible fixed assets to reclassify £0.1 million from Plant & Fixtures to Freehold Land & Buildings.

During the measurement period the deferred tax position in respect of the acquisition has been concluded, taking into account elections available and contemplated at the acquisition date which enable a tax base to be established in Brazil for certain assets identified on acquisition. While enacted during the measurement period, this is based on information and facts that existed at the acquisition date. The disclosure of the final fair values of the assets and liabilities acquired have been included in the financial statements for the year ended 30 June 2020.

Following the acquisition of the trade and assets of Caledonian Holdings Ltd in October 2018, the disclosure of final fair values of the assets and liabilities acquired has been included in the financial statements for the year ended 30 June 2019.

Notes to the Consolidated Financial Statements

continued

32. Contingent Consideration Liabilities

	2020 £m	2019 £m
Contingent consideration – less than one year	8.9	5.1
Contingent consideration – more than one year	47.3	30.9
	56.2	36.0

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

	Tri-Solfen® £m	StrixNB® & DispersinB® £m	Injectable Solution 1 £m	Injectable Solution 2 £m	Mirataz £m	Phycox® £m	Other £m	Total £m
As at 1 July 2018	22.8	1.1	6.6	–	–	2.8	1.7	35.0
Additions	–	–	–	7.9	–	–	–	7.9
Remeasurement through intangibles	(1.0)	(0.3)	(0.3)	–	–	–	0.1	(1.5)
Remeasurement through income statement	–	(0.1)	–	–	–	–	–	(0.1)
Cash payments: investing activities	–	(0.1)	(2.1)	(3.0)	–	(0.7)	(0.4)	(6.3)
Finance expense	0.6	0.1	0.2	–	–	0.1	–	1.0
Foreign exchange adjustments	(0.4)	–	–	0.3	–	–	0.1	–
At 30 June 2019	22.0	0.7	4.4	5.2	–	2.2	1.5	36.0
Additions	–	0.2	–	–	10.9	–	0.2	11.3
Remeasurement through intangibles	9.9	–	0.2	–	–	0.8	–	10.9
Cash payments: investing activities	–	(0.1)	(1.5)	(0.9)	–	(0.8)	(0.2)	(3.5)
Finance expense	0.4	–	0.1	0.1	–	–	–	0.6
Foreign exchange adjustments	0.7	–	0.1	–	–	0.1	–	0.9
At 30 June 2020	33.0	0.8	3.3	4.4	10.9	2.3	1.5	56.2

The table below shows on an indicative basis the sensitivity to reasonably possible changes in key inputs to the valuations of the contingent consideration liabilities. There will be a corresponding opposite impact on the intangible asset.

	Tri-Solfen®	StrixNB® & DispersinB®	Injectable Solution 1	Injectable Solution 2	Mirataz	Phycox®	Other
Increase/(decrease) in financial liability							
10% increase in royalty forecasts £m	2.6	0.1	N/A	N/A	1.1	0.3	N/A
10% decrease in royalty forecasts £m	(2.6)	(0.1)	N/A	N/A	(1.1)	(0.3)	N/A
1% increase in discount rates £m	(2.0)	–	(0.1)	(0.1)	(0.6)	(0.1)	–
1% decrease in discount rates £m	2.0	–	0.1	0.1	0.6	0.1	–
5% appreciation in currency £m	(1.6)	–	(0.2)	(0.2)	(0.5)	(0.1)	(0.1)
5% depreciation in currency £m	1.6	–	0.2	0.2	0.5	0.1	0.1
Discount rate range in 2020 financial year							
	2.5%-16.6%	10.1%-13.1%	9.2%	9.2%	6.8%-10.2%	10.1%	9.4%
Discount rate range in 2019 financial year							
	12.5%	9.5%	9.0%	9.0%	–	9.5%	10%
Aggregate cash outflow in relation to royalties (remaining term of royalty agreement)							
2020 £m (years)	50.6 (10)	1.1 (7)	N/A	N/A	17.6 (10)	2.8 (3.5)	N/A
2019 £m (years)	38.0 (10)	1.1 (8)	N/A	N/A	N/A	2.8 (4.5)	N/A

32. Contingent Consideration Liabilities continued

The consideration payable for Tri-Solfen® is expected to be payable over a number of years, and relates to development milestones and sales performance. During the year, the development milestones have been remeasured and are now expected to happen later than initially anticipated. The sales performance royalties have been remeasured during the year reflecting an increase in management's best estimate of forecasted sales performance.

The consideration payable for *Mirataz* relates to sales performance and is expected to be payable over a number of years.

The consideration payable for StrixNB® and DispersinB® is expected to be payable over a number of years, and relates to sales performance. During the year the contingent consideration has been remeasured based on management's best estimate of forecasted sales performance. An Addendum to the contract was agreed during the year for a development milestone and sales performance in the Brazilian market.

The consideration for two separate licensing agreements for injectable solutions both relate to development milestones. *Phycox* relates to sales performance and arose as part of the acquisition of the trade and assets of PSPC Inc. in 2014.

Where a liability is expected to be payable over a number of years the total estimated liability is discounted to its present value. With the exception of *Phycox*, all contingent consideration liabilities relate to licensing agreements.

33. Related Party Transactions

Subsidiaries

The Group's ultimate Parent Company is Dechra Pharmaceuticals PLC. A listing of subsidiaries is shown within the financial statements of the Company on pages 212 to 214.

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 129 to 138. The remuneration of key management is disclosed in note 8.

Associates

The Group holds a 48% stake in Medical Ethics Pty Ltd, which is the holding company of Animal Ethics Pty Ltd. There have been no transactions with the Medical Ethics Group during the year. In the prior year, a milestone payment of £1.4 million (AUD 2.5 million) relating to the licensing agreement with Animal Ethics Pty Ltd was made. Refer to note 6 for further information on the results of the associate in the period.

34. Off Balance Sheet Arrangements

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

35. Changes in Accounting Policies

IFRS 16 'Leases'

The Group has adopted IFRS 16 retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

(a) Adjustments Recognised on Adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.9%.

	2019 £m
Operating lease commitments disclosed as at 30 June 2019	16.4
Impact of discounting using the incremental borrowing rate (IBR) on transition	(2.0)
(Less): short term leases recognised on a straight-line basis as expense	(0.8)
(Less): contracts reassessed as service agreements	(0.9)
Lease liability recognised as at 1 July 2019	12.7
Of which are:	
Current lease liabilities	2.7
Non-current lease liabilities	10.0
	12.7

Notes to the Consolidated Financial Statements

continued

35. Changes in Accounting Policies continued

The recognised right of use assets relate to the following types of assets:

	30 June 2020	1 July 2019
	£m	£m
Properties	11.2	9.2
Equipment	0.3	0.4
Motor vehicles	3.4	3.1
Total right of use assets	14.9	12.7

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- right of use assets (reflected in property, plant and equipment) – increase £12.7 million
- lease liability (reflected in borrowings) – increase £12.7 million

The net impact on retained earnings on 1 July 2019 was £nil. The adoption of IFRS 16 has resulted in EBITDA being £3.7 million higher and EBIT being £0.2 million higher in the current period compared to IAS 17.

Practical Expedients Applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate for a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 14 'Determining whether an arrangement contains a lease'.

(b) The Group's Leasing Activities and how these are accounted for

The Group leases various offices, warehouses, equipment and vehicles. Rental contracts are typically made for fixed periods of three to five years, but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2020 financial year, leases of property, plant and equipment were classified as operating leases. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable by both the Group and the respective lessor.

IFRIC 23 'Uncertainty over Income Tax Treatments'

From 1 July 2019, the Group has adopted IFRIC 23 which clarifies the application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. Upon adoption of IFRIC 23, there have been no material adjustments to the uncertain tax positions held on the balance sheet as at 30 June 2019. The Group have also reviewed the most appropriate methodology for the uncertain tax positions held at the balance sheet date. Based on the current facts and circumstances in each case, the Group has used both the most likely outcome method and the expected value method in calculating the value of the provision required. This methodology will be reviewed in each case upon the receipt of any new information.

36. Contingent Liabilities

In October 2017 the European Commission (the Commission) opened a State Aid investigation into the Group Financing Exemption in the UK Controlled Foreign Company (CFC) rules. On 25 April 2019 the Commission issued its decision on the CFC Group Financing Exemption concluding that part of the UK measures were unlawful and incompatible instructing the UK Government to recover the State Aid. The UK Government filed an annulment appeal on 12 June 2019. In common with other UK-based international companies Dechra had financing arrangements in line with the current UK legislation. We have calculated the maximum potential State Aid claimed as £4.0 million excluding penalties and interest. Given the current position no provision has been recognised in the financial statements.

At 30 June 2020, contingent liabilities arising in the normal course of business amounted to £11.4 million (2019: £15.0 million) relating to licence and distribution agreements entered into during the year. The stage of development of the projects underpinning the agreements dictates that a commercially stable product is yet to be achieved, and accordingly an intangible asset and a contingent consideration liability have not been recognised.

37. Subsequent Events

On 27 July 2020 the Group completed the acquisition of the worldwide rights of the *Osurnia* product portfolio from Elanco Animal Health Incorporated for a total consideration of USD135.0 million (£104.7 million). Inventory of USD6.6 million (£5.1 million) was also acquired as part of the transaction.

38. Underlying Operating Profit and Profit Before Taxation

	2020 £m	2019 £m
Operating profit		
Underlying operating profit/EBIT is calculated as follows:		
Operating profit	52.2	39.0
Non-underlying operating expenses (note 5)	76.1	88.4
Underlying operating profit/EBIT	128.3	127.4
Depreciation	9.9	5.7
Amortisation	4.3	4.1
Underlying earnings before interest, tax, depreciation and amortisation (EBITDA)	142.5	137.2
Profit before taxation		
Underlying profit before taxation is calculated as follows:		
Profit before taxation	40.9	27.8
Non-underlying operating expenses	76.1	88.4
Amortisation of fair value adjustments relating to Medical Ethics (net of tax)	0.6	0.2
Fair value and other movements on contingent consideration	1.5	1.0
Loss on extinguishment of debt	1.0	–
Underlying profit before taxation	120.1	117.4

Company Statement of Financial Position

At 30 June 2020

	Note	2020 £m	2019 £m
Non-current assets			
Investments	iv	743.6	743.6
Intangible assets	v	9.3	10.1
Tangible assets	vi	1.2	0.2
		754.1	753.9
Current assets			
Trade and other receivables (includes amounts falling due after more than one year of £47.6 million (2019: £1.2 million))	vii	110.7	28.8
Cash at bank and in hand	viii	200.1	50.9
		310.8	79.7
Borrowings	x	(0.2)	–
Trade and other payables	ix	(267.3)	(220.4)
Net current assets/ (liabilities)		43.3	(140.7)
Total assets less current liabilities		797.4	613.2
Non-current liabilities			
Borrowings	x	(166.6)	(114.5)
Net assets		630.8	498.7
Equity			
Called up share capital	xii	1.1	1.0
Share premium account		409.3	277.9
Foreign currency translation reserve		0.6	0.6
Merger reserve		82.6	82.6
At 1 July		136.6	120.4
Profit for the year attributable to the owners		32.3	43.1
Other changes in retained earnings		(31.7)	(26.9)
Retained earnings		137.2	136.6
Total equity shareholders' funds		630.8	498.7

The financial statements were approved by the Board of Directors on 7 September 2020 and are signed on its behalf by:

Ian Page

Chief Executive Officer
7 September 2020

Paul Sandland

Chief Financial Officer
7 September 2020

Company number: 3369634

Company Statement of Changes in Shareholders' Equity

For the year ended 30 June 2020

	Called up share capital £m	Share premium account £m	Foreign currency translation reserve £m	Merger reserve £m	Retained earnings £m	Total shareholders' funds £m
Year ended 30 June 2019						
At 1 July 2018	1.0	276.7	0.6	82.6	120.4	481.3
Profit for the period	–	–	–	–	43.1	43.1
Total comprehensive income	–	–	–	–	43.1	43.1
Transactions with owners						
Dividends paid	–	–	–	–	(28.4)	(28.4)
Share-based payment charge	–	–	–	–	1.5	1.5
Shares issued	–	1.2	–	–	–	1.2
Total contributions by and distributions to owners	–	1.2	–	–	(26.9)	(25.7)
At 30 June 2019	1.0	277.9	0.6	82.6	136.6	498.7
Year ended 30 June 2020						
At 1 July 2019	1.0	277.9	0.6	82.6	136.6	498.7
Profit for the period	–	–	–	–	32.3	32.3
Total comprehensive income	–	–	–	–	32.3	32.3
Transactions with owners						
Dividends paid	–	–	–	–	(33.3)	(33.3)
Share-based payment charge	–	–	–	–	1.6	1.6
Shares issued	0.1	131.4	–	–	–	131.5
Total contributions by and distributions to owners	0.1	131.4	–	–	(31.7)	99.8
At 30 June 2020	1.1	409.3	0.6	82.6	137.2	630.8

Notes to the Company Financial Statements

(i) Principal Accounting Policies of the Company

Accounting Principles

The separate financial statements of the Company have been prepared on a going concern basis, under the historical cost convention, in accordance with applicable UK accounting standards and the Companies Act 2006.

Basis of Preparation

The Directors opted to prepare the financial statements for the year ended 30 June 2020 in accordance with FRS 101 'Reduced Disclosure Framework' and the Companies Act 2006. The principal accounting policies applied in the preparation of these financial statements are set out below, and have been applied consistently.

No income statement is presented for the Company as permitted by Section 408(2) and (3) of the Companies Act 2006. The profit dealt within the accounts of the Company was £32.3 million (2019: £43.1 million).

The following exemptions have been taken in preparing the financial statements:

- a. The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payment', exempting the Company from preparing share based payment disclosures.
- b. The requirements of IFRS 7 'Financial Instruments: Disclosures'
- c. The following requirements of IAS 1:
 - Paragraphs 10(d) and 111, exempting the Company from providing a cash flow statement and information;
 - Paragraph 16, exempting the Company from providing a statement of compliance with all IFRSs;
 - Paragraph 38A, exempting the Company from the requirement for a minimum of two of each primary statement and the related notes;
 - Paragraph 38B to D, exempting the Company from the requirement to present additional comparative information; and
 - Paragraphs 134 to 136, exempting the Company from presenting Capital Management disclosures.
- d. The requirements of IAS 7 'Statement of Cash Flows', exempting the company from preparing a cash flow statement.
- e. The requirements of paragraph 17 of IAS 24 'Related Party Disclosures', exempting the Company from disclosing details of all key management compensation.
- f. The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions with wholly-owned members of the Group.
- g. The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' exempting the company from disclosing the impact of new accounting standards that have been issued but are not yet effective.

Adoption of New and Revised Standards

The following standards, amendments to standards or interpretations have been adopted for the first time from 1 July 2019. Please refer to note (xiv) for more detail on the impact of adoption on the financial statements.

- IFRS 16 'Leases' provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.
- IFRIC 23 'Uncertainty over Income Tax Treatment' provides clarity on how to apply the recognition and measurement requirements in IAS 12 'Income Taxes' when there is uncertainty over income tax treatments. Adoption of this interpretation did not have a material impact on the Company's financial statements.

Investments

Investments held as fixed assets are stated at cost less any impairment losses. Where the consideration for the acquisition of a subsidiary undertaking includes shares in the Company to which the provisions of section 612 of the Companies Act 2006 apply, cost represents the nominal value of the shares issued together with the fair value of any additional consideration given and costs. Where investments are denominated in foreign currencies, they are treated as monetary assets and revalued at each year end date.

Intangible Assets

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

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

Tangible Assets

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

- plant and fixtures 3 to 15 years

(i) Principal Accounting Policies of the Company continued**Dividends**

Dividends are recognised in the period in which they are approved by the Company's shareholders or, in the case of an interim dividend, when the dividend is paid. Dividends receivable from subsidiaries are recognised when either received in cash or applied to reduce a creditor balance with the subsidiary.

Interest-Bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Employee Benefits**(a) Pensions**

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

(b) Share-based Payment Transactions

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

The fair value of shares or options granted is recognised as an employee expense on a straight-line basis in the income statement with a corresponding movement in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares or options (the vesting period). The fair value of the shares or options granted is measured using a valuation model, taking into account the terms and conditions upon which the shares or options were granted. The amount recognised as an expense in the income statement is adjusted to take into account an estimate of the number of shares or options that are expected to vest together with an adjustment to reflect the number of shares or options that actually do vest except where forfeiture is only due to market-based conditions not being achieved.

The fair values of grants under the Long Term Incentive Plan have been determined using the Monte Carlo simulation model. The fair values of options granted under all other share option schemes have been determined using the Black-Scholes option pricing model.

National Insurance contributions payable by the Company on the intrinsic value of share-based payments at the date of exercise are treated as cash settled awards and revalued to market price at each statement of financial position date. Where the Company grants options over its own shares to the employees of its subsidiaries, it recharges the expense to those subsidiaries.

Foreign Currency

Foreign currency transactions are translated into Sterling using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities are translated at the closing rate at the reporting date. Foreign exchange gains and losses are recognised in the income statement.

Taxation

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for the UK, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. *The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.* Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

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.

Amounts owed by Subsidiary Undertakings

Amounts owed by subsidiary undertakings are initially recognised at fair value and subsequently measured at this value less loss allowances, calculated using the three stage IFRS 9 model.

Notes to the Company Financial Statements

continued

(ii) Directors and Employees

Total emoluments of Directors (including pension contributions) amounted to £3.0 million (2019: £4.7 million). Information relating to Directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 129 to 138. Tony Griffin's remuneration is paid by Eurovet Animal Health B.V. in Euros but reported in Sterling for the purposes of these figures. The exchange rate used was 1.1396 (2019: 1.1345).

	2020 Number	2019 Number
Administration	53	37
Total	53	37

The costs incurred in respect of these employees were:

	2020 £m	2019 £m
Wages and salaries	5.0	4.5
Social security costs	0.7	0.6
Other pension costs	0.2	0.2
Share-based payments charge (see note 27)	1.5	2.4
Total	7.4	7.7

The Group operates a stakeholder personal pension scheme for certain employees and contributed between 4% and 14% of pensionable salaries. Total pension contributions amounted to £0.2 million (2019: £0.2 million).

(iii) Profit Before Taxation

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

	2020 £m	2019 £m
Depreciation of property, plant and equipment		
– owned assets	0.1	0.1
– leased assets	0.2	–
Amortisation of intangible assets	2.2	1.9
Operating lease rentals payable	–	0.3
Auditor's remuneration – audit of these financial statements	0.1	0.1

(iv) Investments

	Shares in subsidiary undertakings £m
Cost	
At 1 July 2019	755.8
Additions	–
At 30 June 2020	755.8
Impairment	
At 1 July 2019	12.2
Charge for the period	–
At 30 June 2020	12.2
Net book value	
At 30 June 2020	743.6
At 30 June 2019	743.6

A list of subsidiary undertakings is given in note (xv).

(v) Intangible Assets

	Acquired Intangibles £m	Software £m	Total Intangible assets £m
Cost			
At 1 July 2019	5.1	10.8	15.9
Additions	–	1.4	1.4
At 30 June 2020	5.1	12.2	17.3
Accumulated Amortisation			
At 1 July 2019	3.8	2.0	5.8
Charge for the year	0.5	1.7	2.2
Impairment	–	–	–
At 30 June 2020	4.3	3.7	8.0
Net book value			
At 30 June 2020	0.8	8.5	9.3
At 30 June 2019	1.3	8.8	10.1

(vi) Tangible Assets

	Tangible assets £m
Cost	
At 1 July 2019	0.7
Additions	0.2
Changes in accounting policy	1.1
At 30 June 2020	2.0
Accumulated Depreciation	
At 1 July 2019	0.5
Charge for the year	0.3
At 30 June 2020	0.8
Net book value	
At 30 June 2020	1.2
At 30 June 2019	0.2
Net book value of right-of-use- assets	
At 30 June 2020	1.0
At 30 June 2019	–

(vii) Trade and Other Receivables

	2020 £m	2019 £m
Amounts owed by subsidiary undertakings	104.7	25.8
Group relief receivable	3.8	1.4
Deferred taxation (see note (xi))	0.4	0.6
Other receivables	1.0	0.4
Prepayments and accrued income	0.8	0.6
	110.7	28.8

Included in debtors are amounts of £0.4 million (2019: £0.6 million) due after more than one year relating to deferred tax assets.

Of the amounts owed by subsidiary undertakings, £47.2 million is due after more than one year (2019: £0.6 million). The provision for impairment against amounts owed by subsidiary undertakings is immaterial and has been considered in accordance with IFRS 9. Amounts owed by subsidiary undertakings are primarily unsecured and repayable on demand. £100.6 million attracts interest of 1.7% and between 0.71% and 1.56% above LIBOR, the balance is interest free. £1.8 million of the £100.6 million is repayable in 2023. £45.4 million of the £100.6 million is repayable in 2027.

Notes to the Company Financial Statements

continued

(viii) Cash at bank and in hand

	2020 £m	2019 £m
Cash at bank and in hand	200.1	50.9
	200.1	50.9

During 2019 the Company implemented physical cash pooling. This resulted in increased cash being held in the Company as the Master Account Holder.

(ix) Trade and Other Payables

	2020 £m	2019 £m
Trade payables	1.2	1.0
Other payables	–	0.8
Amounts due to subsidiary undertakings	261.2	214.8
Other taxation and social security	0.2	0.2
Accruals and deferred income	4.7	3.6
	267.3	220.4

Amounts due to subsidiary undertakings are primarily unsecured and repayable on demand. £232.7 million attracts interest between 0.25% below LIBOR and 1.5% above LIBOR, the balance is interest free. £96.4 million of the £232.7 million has been repaid post year end.

In accordance with IAS 10 'Events after the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2020 of 24.00 pence per share (2019: 22.10 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 2020. The total cost of the proposed final dividend is £25.9 million (2019: £22.7 million).

(x) Borrowings

	2020 £m	2019 £m
Borrowings due within one year		
Lease Liabilities	0.2	–
Borrowings due after more than one year		
Aggregate bank loan and lease liabilities instalments repayable:		
– between one and two years	0.2	–
– between two and five years	41.5	117.2
– over five years	127.6	–
Arrangement fees netted off	(2.7)	(2.7)
	166.6	114.5
Total borrowings	166.8	114.5

On 1 October 2019 the Accordion facility on the Revolving Credit Facility of £235.0 million was invoked, removing the Accordion facility and increasing the committed facilities on the Revolving Credit Facility to £340.0 million. At 30 June 2020, £41.3 million was drawn against the £340.0 million Revolving Credit Facility maturing 25 July 2024 in the Company. Interest is charged on this facility at a minimum of 1.30% over LIBOR and a maximum of 2.20% over LIBOR, dependent upon the Leverage (the ratio of Total Net Debt to Adjusted EBITDA) of the Group. As at 30 June 2020, interest being charged on this facility is 1.70% above LIBOR.

In January 2020 the Company undertook a Private Placement raising EUR50.0 million and USD100.0 million (under seven and ten year new senior secured notes respectively). At 30 June 2020, £127.1 million was drawn under the Private Placement in the Company. The Private Placement amounts are not secured on any specific assets of the Group, but are supported by a joint and several guarantee structure. Interest is charged on the EUR50.0 million amount at a fixed rate of 1.19% until maturity (January 2027). Interest is charged on the USD100.0 million amount at a fixed rate of 3.34% until maturity (January 2030).

The drawings on the Private Placement, together with a restructuring of the drawings on the Revolving Credit Facility, enabled the £350.0 million Term Loan Facility, due to mature in December 2020, to be fully repaid and cancelled in January 2020.

Arrangement fees of £1.7 million were incurred on the two facilities during the year, these being released to the income statement over the life of the facility.

No interest has been capitalised during the year (2019: £nil).

The Company guarantees certain borrowings of other Group companies under the above facilities, which at 30 June 2020 amounted to £174.3 million (2019: £193.6 million).

(xi) Deferred Tax

	£m
At 1 July 2019 (included in trade and other receivables)	0.6
Additions to the income statement	0.1
Additions to statement of changes in equity	(0.3)
At 30 June 2020 (included in trade and other receivables)	0.4

Deferred tax has been calculated using the rate of 17.0% or 19.0% based on the timing of when each individual deferred tax balance is expected to reverse in the future as follows (2019: 19.0% or 17.0%):

	2020 £m	2019 £m
Short term timing differences	0.7	1.0
Accelerated capital allowances	(0.3)	(0.4)
	0.4	0.6

Deferred tax assets in relation to losses amounting to £nil (2019: £nil) have not been recognised due to uncertainty over their recoverability.

(xii) Called up Share Capital

	Ordinary shares of 1p each	
	£m	Number
Issued share capital		
Allotted, called up and fully paid at 1 July 2019	1.0	102,651,602
New shares issued	0.1	5,359,358
Allotted, called up and fully paid at 30 June 2020	1.1	108,010,960

Details of new ordinary shares issued following the exercise of options under the Long Term Incentive Plan and the Approved, Unapproved and SAYE Share Option Schemes are shown in notes 25 and 27 to the Consolidated Financial Statements.

Share Options

Details of outstanding share options over ordinary shares of 1 pence at 30 June 2020 under the various Group share option schemes are shown in note 27 to the Consolidated Financial Statements.

(xiii) Operating Leases

At the balance sheet date the Company had outstanding commitments for future minimum rentals payable under non-cancellable operating leases as follows:

	Land and buildings		Other assets		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Within one year	-	0.1	-	0.1	-	0.2
Between one and five years	-	0.4	-	0.1	-	0.5
In five years or more	-	0.6	-	-	-	0.6
	-	1.1	-	0.2	-	1.3

(xiv) Adoption of New and Revised Standards

The Company has adopted IFRS 16 retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. The new accounting policies are disclosed within Note 35 of the Group accounts.

(a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.9%.

Notes to the Company Financial Statements

continued

(xiv) Adoption of New and Revised Standards continued

	2019 £m
Operating lease commitments disclosed as at 30 June 2019	1.3
Impact of discounting using incremental borrowing rate (IBR) on transition	(0.2)
Lease liability recognised as at 30 June 2019	1.1
Of which:	
Current lease liabilities	0.2
Non-current lease liabilities	0.9
	1.1

The recognised right of use assets relate to the following types of assets:

	2020 £m	2019 £m
Properties	0.8	0.9
Motor vehicles	0.2	0.2
Total right of use assets	1.0	1.1

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- right of use assets – increase £1.1 million.
- lease liability – increase £1.1 million.

The net impact on retained earnings on 1 July 2019 was £nil.

The adoption of IFRS 16 has resulted in EBITDA being £0.2 million higher in the current period compared to IAS 17. There has been £nil impact on EBIT.

(xv) Subsidiary Undertakings

Operating subsidiaries

Name	Country of Incorporation	Principal Activity	Registered Address	Shareholder
Ampharmco, LLC	USA	Manufacturer of veterinary pharmaceuticals	1401 Joel East Road, Fort Worth, TX76140-6003, United States	Dechra Holdings US Inc
AST Farma B.V.	The Netherlands	Marketer of veterinary pharmaceuticals and distributor of veterinary pharmaceuticals and equipment	Wilgenweg 7, 3421TV Oudewater, The Netherlands	Dechra Finance B.V.
Dechra Brasil Produtos Veterinarios LTDA (Formerly Laboratorios Vencofarma do Brasil Ltda)	Brazil	Developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals	Travessa Dalva de Oliveira, 237, Industrias Leves, Londrina, Parana 86030-370, Brazil	Dechra Holdings Brasil Ltda
Dechra Development LLC	USA	Contract regulatory and product development services for the Group	Principal Place of Business: 7015 College Blvd, Suite 510, Overland Park KS 66211, United States	Dechra Holdings US Inc
Dechra Limited	England and Wales	Developer, regulatory, product development, manufacturer and marketer of veterinary pharmaceuticals	Snaygill Industrial Estate, Keighley Road, Skipton, BD23 2RW, United Kingdom	Dechra Investments Limited
Dechra Finance Australia Limited	England and Wales	Financial services	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Limited
Dechra Finance B.V.	The Netherlands	Financial services and holding company	Pettelaarpark 38, 5216PD 's-Hertogenbosch, The Netherlands	Dechra Pharmaceuticals PLC
Dechra Finance Ireland Designated Activity Company	Republic of Ireland	Financial services	6th Floor, 2 Grand Canal Square, Dublin 2, Ireland	Dechra Limited
Dechra Finance Limited	England and Wales	Financial services and holding company	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Pharmaceuticals PLC
Dechra Finance Sterling Limited	England and Wales	Financial services	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Pharmaceuticals PLC

(xv) Subsidiary Undertakings continued

Name	Country of Incorporation	Principal Activity	Registered Address	Shareholder
Dechra Holdings Brasil Ltda	Brazil	Holding Company	Travessa Dalva de Oliveira No. 237, office ADM I, Industrias Leves, Londrina, Parana 86030-370, Brazil	AST Farma B.V.
Dechra Regulatory B.V.	The Netherlands	Regulatory	Handelsweg 25, 5531AE Bladel, The Netherlands	Dechra Pharmaceuticals PLC
Dechra Veterinary Products (Australia) Pty Limited	Australia	Developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals	2 Cal Close, Somersby NSW 2250, Australia	Dechra Holding Australia Pty Limited
Dechra Veterinary Products GmbH	Austria	Marketer of veterinary pharmaceuticals and pet diets	Hintere Achmhlerstrasse 1a, 6850 Dornbirn, Austria	Dechra Limited
Dechra Veterinary Products N.V.	Belgium	Marketer of veterinary pharmaceuticals and pet diets	Achterstenhoek 48 2275 Lille, Belgium	Eurovet Animal Health B.V.
Dechra Veterinary Products, Inc	Canada	Marketer of veterinary pharmaceuticals and pet diets	100 King Street West, Suite 6100, 1 First Canadian Place, Toronto ON M5X 1B8, Canada	Dechra Limited
Dechra Veterinary Products A/S	Denmark	Marketer of veterinary pharmaceuticals and pet diets	Mekuvej 9, DK-7171 Uldum, Denmark	Dechra Pharmaceuticals PLC
Dechra Veterinary Products Limited	England and Wales	Marketer of veterinary pharmaceuticals and pet diets	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Veterinary Products A/S
Dechra Veterinary Products Oy	Finland	Marketer of veterinary pharmaceuticals and pet diets	Erottajankatu 9 B 3, 00130 Helsinki, Finland	Dechra Veterinary Products A/S
Dechra Veterinary Products SAS	France	Marketer of veterinary pharmaceuticals and pet diets	60 Avenue du Centre, 78180 Montigny le Bretonneux, France	Dechra Veterinary Products A/S
Dechra Veterinary Products Deutschland GmbH	Germany	Marketer of veterinary pharmaceuticals and distributor of veterinary pharmaceuticals and equipment	Hauptstr. 6-8, Aulendorf, Germany	Eurovet Animal Health B.V.
Dechra Veterinary Products S.r.l.	Italy	Marketer of veterinary pharmaceuticals and pet diets	Via Agostino da Montefeltro 2, 10134 Torino, Italy	Dechra Limited
Dechra Veterinary Products B.V.	The Netherlands	Marketer of veterinary pharmaceuticals and pet diets	Wilgenweg 7, 3421TV Oudewater, The Netherlands	Dechra Veterinary Products A/S
Dechra Veterinary Products NZ Limited	New Zealand	Marketer of veterinary pharmaceuticals and distributor of veterinary pharmaceuticals and equipment	Level 11, 41 Shortland Street, Auckland, 1010, New Zealand	Dechra Holding Australia Pty Limited
Dechra Veterinary Products AS	Norway	Marketer of veterinary pharmaceuticals and pet diets	Henrik Ibsens Gate 90, Postboks 2943 Solli, 0230 Oslo, Norway	Dechra Veterinary Products A/S
Dechra Veterinary Products Sp. z o.o.	Poland	Marketer of veterinary pharmaceuticals and pet diets	1st Floor, 61 Moldlinska Str., 03-199 Warsaw, Poland	Dechra Limited
Dechra Veterinary Products, S.L. Unipersonal	Spain	Marketer of veterinary pharmaceuticals and pet diets	C/Balmes, 202, P.6-08006 Barcelona, Spain	Dechra Veterinary Products A/S
Dechra Veterinary Products AB	Sweden	Marketer of veterinary pharmaceuticals and pet diets	Principal Place of Business: Stora Wäsby Orangeriet 3, Upplands Väsby, 194 37, Sweden	Dechra Veterinary Products A/S
Dechra Veterinary Products, LLC	USA	Marketer of veterinary pharmaceuticals and pet diets	Principal Place of Business: 7015 College Blvd, Suite 525, Overland Park KS 66211, United States	Dechra Holdings US Inc
Dechra-Brovel, S.A. de C.V.	Mexico	Developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals	Principal Place of Business: Empresa Numero 66, Colonia Mixcoac, Delegacion Benito Juarez, Ciudad de Mexico, Distrito Federal, Mexico	Dechra Limited
Eurovet Animal Health B.V.	The Netherlands	Holding company, developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals	Handelsweg 25, 5531AE Bladel, The Netherlands	Dechra Pharmaceuticals PLC
Genera d.d.	Croatia	Holding company, developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals and crop protection	Svetonedeljska cesta 2, Kalinovica, 10436 Rakov Potok, Croatia	Eurovet Animal Health B.V.
Genera d.o.o Sarajevo	Bosnia and Herzegovina	Marketer of veterinary pharmaceuticals	Hamdije Cemerlica 2, Sarajevo, Bosnia and Herzegovina	Genera d.d.
Genera Pharma d.o.o.	Serbia	Marketer of veterinary pharmaceuticals	Gostivarska 70, Vozdovac, Beograd, Serbia	Genera d.d.
Genera SI d.o.o	Slovenia	Marketer of veterinary pharmaceuticals	Parmova Ulica, Ljubljana, Slovenia	Genera d.d.

Notes to the Company Financial Statements

continued

(xv) Subsidiary Undertakings continued

Name	Country of Incorporation	Principal Activity	Registered Address	Shareholder
Le Vet. Beheer B.V.	The Netherlands	Holding company	Wilgenweg 7, 3421TV Oudewater, The Netherlands	Dechra Finance B.V.
Le Vet. B.V.	The Netherlands	Marketer of veterinary pharmaceuticals	Wilgenweg 7, 3421TV Oudewater, The Netherlands	Le Vet Beheer B.V.
Putney, Inc	USA	Developer, regulatory and marketer of veterinary pharmaceuticals	Principal Place of Business: 7015 College Blvd, Suite 525, Overland Park KS 66211, United States	Dechra Holdings US Inc

Other subsidiaries

Name	Country of Incorporation	Principal Activity	Registered Address	Shareholder
Apex Laboratories N.Z. Limited (deregistered as of 18 December 2019)	New Zealand	Deregistered during the period 1 July 2019 to 30 June 2020	Level 11, 41 Shortland Street, Auckland, 1010, New Zealand	Dechra Veterinary Products (Australia) Pty Limited
Arnolds Veterinary Products Limited	England and Wales	Non-trading	24 Cheshire Avenue, Cheshire Business Park, Lostock Grlam, Northwich, CW9 7UA, United Kingdom	Veneto Limited
Broomco 4263 Limited	England and Wales	Non-trading	24 Cheshire Avenue, Cheshire Business Park, Lostock Grlam, Northwich, CW9 7UA, United Kingdom	Veneto Limited
Dales Pharmaceuticals Limited	England and Wales	Non-trading	24 Cheshire Avenue, Cheshire Business Park, Lostock Grlam, Northwich, CW9 7UA, United Kingdom	Veneto Limited
Dechra Holding Australia Pty Limited	Australia	Holding company	2 Cal Close, Somersby NSW 2250, Australia	Dechra Limited
Dechra Holdings US Inc	USA	Holding company	Principal Place of Business: 7015 College Blvd, Suite 525, Overland Park KS 66211, United States	Dechra Limited
Dechra Investments Limited	England and Wales	Holding company	24 Cheshire Avenue, Cheshire Business Park, Lostock Grlam, Northwich, CW9 7UA, United Kingdom	Dechra Pharmaceuticals PLC
DermaPet, Inc	USA	Non-trading	Principal Place of Business: 7015 College Blvd, Suite 525, Overland Park KS 66211, United States	Dechra Veterinary Products LLC
Farvet Laboratories B.V.	The Netherlands	Non-trading	Handelsweg 25, 5531AE Bladel, The Netherlands	Eurovet Animal Health B.V.
Putney, Inc (merged with and into Dechra Veterinary Products, LLC as of 1 April 2020)	USA	Merged during the period 1 July 2019 to 30 June 2020	Principal Place of Business: 7015 College Blvd, Suite 525, Overland Park KS 66211, United States	Dechra Holdings US Inc
Veneto Limited	England and Wales	Holding company	24 Cheshire Avenue, Cheshire Business Park, Lostock Grlam, Northwich, CW9 7UA, United Kingdom	Dechra Pharmaceuticals PLC

Financial History

	2020	Restated* 2019	2018	2017	2016
	£m	£m	£m	£m	£m
Consolidated Income Statement					
Revenue	515.1	481.8	407.1	359.3	247.6
Underlying operating profit	128.3	127.4	99.2	81.3	52.9
Underlying profit after taxation	95.4	92.5	74.5	60.1	38.4
Underlying earnings per share					
– basic (pence)	92.50	90.24	76.85	64.68	42.95
– diluted (pence)	92.19	90.01	76.45	64.33	42.65
Dividend per share (pence)	34.29	31.60	25.50	21.44	18.46
Operating profit	52.2	39.0	34.1	33.2	19.5
Profit after taxation	33.9	30.9	36.1	26.1	12.5
Earnings per share					
– basic (pence)	32.87	30.15	37.24	28.09	14.00
– diluted (pence)	32.76	30.07	37.04	27.93	13.90
Consolidated Statement of Financial Position					
Non-current assets	788.7	750.0	769.4	453.1	393.4
Current assets	448.9	291.5	247.9	185.0	162.4
Current liabilities	(137.3)	(118.1)	(91.6)	(66.4)	(66.0)
Non-current liabilities	(462.8)	(414.3)	(420.7)	(269.1)	(213.2)
Shareholders' funds	637.5	509.1	505.0	302.6	276.6
Consolidated Statement of Cash Flows					
Net cash inflow from operating activities	106.4	81.8	64.0	77.4	43.6
Net cash outflow from investing activities	(81.5)	(61.9)	(241.7)	(57.2)	(174.0)
Net cash inflow/(outflow) from financing activities	118.9	(20.1)	193.8	1.6	125.3

* Restated as detailed in note 31 Acquisitions.

Ensuring a Clear Portfolio Focus with Strong Market Positions in Key Therapeutic Areas

Dechra's product range is focused on a number of therapeutic categories, predominantly for companion animals. The majority of key products are novel or have clear marketing advantages over competitor products. Several products have market leading positions in a number of major territories. Three of our main categories are:

Endocrinology

Dechra has a number of unique licensed products treating a range of chronic diseases. The four leading brands are *Felimazole*, *Forthyron*, *Vetoryl* and *Zycortal*.

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.

Anaesthesia and Analgesia

Dechra has a wide range of products that support emergency medicine, pain relief and sedation. The leading brands are *Atipam*, *Comfortan*, *Sedator*, *Tralieve* and *Vetivex*.

Perioperative sedation and pain management are challenging but critical for all patients and form a fundamental part of animal welfare. Offering a comprehensive range of analgesic and anaesthetic products allows the veterinarians to adapt their protocols to the individual pet based on their level of discomfort, whilst providing flexible anaesthetic procedures.

Dermatology and Care

Topical antimicrobial products are important to treat skin and ear infections. We have a wide range of products that can be used alone or as an adjuvant therapy. The leading brands are *Canaural*, the *DermaPet* range, *Isaderm* and *Malaseb*. The post year end addition of *Osumia* to the Dechra dermatology portfolio will significantly enhance its presence in this key therapeutic area.

Dermatology represents approximately 20% of veterinarians' clinical time and is currently a major focus area for the industry. Best practice and management techniques look to adopt more topical products as opposed to oral treatments, with the aim of utilising antibiotics less frequently. Dechra's product portfolio, with its range of licensed and non-licensed topical products, is well positioned for this approach.

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Glossary

The following is a glossary of a number of the terms and acronyms which can be found within this document:

ABC

Anti-Bribery and Anti-Corruption

AER

Actual Exchange Rate

ANZ

Australia and New Zealand

APM

Alternative Performance Measures

BEPS

Base Erosion Profit Shifting

Bioequivalence

The demonstration that the proposed formulation has the same biological effects as the pioneer product to which it is being compared. This is usually demonstrated by comparing blood concentrations of the active over time, but can be compared using a clinical endpoint (e.g. lowering of a worm count) for drugs that are not absorbed or for which blood levels cannot be determined

bps

Basis Points

CAGR

Compound Annual Growth Rate

CAP

Companion Animal Products

Capex

Capital Expenditure

CDGP

Canine Diabetes Genetics Partnership

CER

Constant Exchange Rate

CMO

Contract Manufacturing Organisation

Code

UK Corporate Governance Code 2018

CRM

Client Relationship Management

CSOP

Company Share Option Plan

CSR

Corporate Social Responsibility

CVMP

Committee for Veterinary Medicinal Products

Dechra Values or Values

Dedication, Enjoyment, Courage, Honesty, Relationships and Ambition

DPM&S

Dechra Pharmaceuticals Manufacturing and Supply

DSC

Dechra Service Center

DVP

Dechra Veterinary Products

DVP EU

Dechra Veterinary Products EU or Dechra Veterinary Products Europe

DVP International

Dechra Veterinary Products International

DVP NA

Dechra Veterinary Products North America

DVP US

Dechra Veterinary Products US

EBIT

Earnings before interest and tax. This is the same as operating profit

EBITDA

Earnings before interest, tax, depreciation and amortisation

EMA

European Medicines Agency

EPS

Earnings Per Share

ERP

Enterprise Resource Planning

ESG

Environmental, Social and Governance

ESPP

Employee Stock Purchase Plan

ETR

Effective Tax Rate

EU Pharmaceuticals

European Pharmaceuticals Segment comprising DVP EU, DVP International and DPM&S

Executive Directors

The Executive Directors of the Company, currently Ian Page, Paul Sandland and Tony Griffin

FAP

Food producing Animal Products

FDA

US Food and Drug Administration

FRC

Financial Reporting Council

FRS

Financial Reporting Standards

FTSE

Companies listed on the London Stock Exchange

FTSE 250/350 Index

An index comprising the 101st to 350th largest companies listed on the London Stock Exchange in terms of their market capitalisation

GAAP

Generally Accepted Accounting Practices

GDPR

General Data Protection Regulation

GHG

Greenhouse Gas

GMP

Good Manufacturing Practices

GRT

Gross Registered Tonnage

GPTW

Great Place To Work

HR

Human Resources

IAS

International Accounting Standards

IFRSs

International Financial Reporting Standards

IT

Information Technology

KPI

Key Performance Indicator

LATAM

Latin America

Leverage

The ratio of Net Debt to underlying EBITDA

LIBOR

The London Inter-Bank Offered Rate

LTA

Lost Time Accident

LTAFR

Lost Time Accident Frequency Rate

LTIP

Long Term Incentive Plan

MAT

Moving Annual Total

MRL

Maximum Residue Limit

Non-Executive Directors

The Non-Executive Directors of the Company, currently Tony Rice, Lisa Bright, Julian Heslop, Lawson Macartney, Ishbel Macpherson and Alison Platt

NA Pharmaceuticals

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

OECD

The Organisation for Economic Cooperation and Development

Ordinary Shares

An ordinary share of 1 pence in the share capital of the Company

Oracle Programme

Enterprise Resources Planning (ERP) software

PDRA

Dechra's Product Development and Regulatory Affairs team

PPE

Personal Protective Equipment

POMs

Prescription Only Medicines

Qualifying LTIP Award

Qualifying LTIP Awards comprises a CSOP option and an ordinary nil-cost LTIP award, with the ordinary award scaled back at exercise to take account of any gain made on exercise of the CSOP option

R&D

Research and Development

RCF

Revolving Credit Facility

RIDDOR

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations

Rights Issue

The three for ten rights issue of 20,040,653 shares, details of which are set out in the prospectus of the Company dated 25 April 2012

ROCE

Return On Capital Employed

RPI

Retail Price Index

SASB

Sustainability Accounting Standards Board

SAYE

Save As You Earn Share Scheme

SDG

United Nations Sustainable Development Goals

SET

Senior Executive Team

SG&A

Selling, General and Administrative Expenses

S&OP

Sales & Operations Planning

SPC

Summary of Product Characteristics

TCFD

Taskforce for Climate-related Financial Disclosures

TGA

Therapeutic Goods Administration

TSR

Total Shareholder Return

Shareholder Information

Financial Calendar

2020 Annual General Meeting	27 October 2020
Final Dividend Ex-Dividend Date	5 November 2020
Final Dividend Record Date	6 November 2020
Final Dividend Payment Date	27 November 2020
Announcement of Half Yearly Results	22 February 2021*

Dates marked with an asterisk are provisional and subject to change

Annual General Meeting

The 2020 Annual General Meeting of the Company will be held at 9.30 am on 27 October 2020 at Dechra Pharmaceuticals PLC, 6 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA. 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.

On 15 January 2008, Dechra undertook a placing and open offer on the basis of 11 Open Offer shares for every 50 existing shares held on 10 December 2007 at an issue price of 303 pence. On 9 January 2008, 11,624,544 shares were issued.

On 5 April 2012, a Rights Issue was announced on the basis of three new ordinary shares for every existing ten shares held on 23 April 2012 at a subscription price of £3.00 per share. The Rights Issue resulted in 20,040,653 shares being issued with dealings commencing on 16 May 2012.

On 17 March 2016, 4,398,600 ordinary shares were offered by way of a placing at an issue price of £11.00 per share.

On 30 January 2018, 5,121,952 ordinary shares were offered by way of a placing at an issue price of £20.50 per share.

On 8 June 2020, 5,132,500 ordinary shares were offered by way of a placing at an issue price of £26.00 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.

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. The Registrars' Shareholder Helpline for Dechra is 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 0345 603 7037.

	Telephone share dealing	Internet share dealing	Postal share dealing
Fee (on value of transaction)			
up to £50,000	1.5%	1.5%	1.9%
Balance over £50,000	0.25%	0.25%	1.9%
Minimum charge	£60.00	£45.00	£70.00
Stamp duty charge (purchases only)	0.5%	0.5%	0.5%

Equiniti Financial Services Limited and its agents are authorised and regulated by the Financial Conduct Authority.

Please note that the price of shares can go down as well as up, and you are not guaranteed to get back the amount you originally invested. If you are in any doubt, you should contact an independent financial adviser.

Warning to Shareholders

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount or offers of free Company Annual Reports. If you receive any unsolicited investment advice, whether over the telephone, through the post or by email:

- make sure you get the name of the person and organisation;
- check that they are properly authorised by the FCA before getting involved by visiting <https://register.fca.org.uk/>; and
- report the matter to the FCA by calling 0800 111 6768 or by completing the online form at www.fca.org.uk/consumers/report-scam-unauthorised-firm.

More detailed information and guidance is available on the shareholder information pages of our website.

Additionally, feel free to report and/or discuss any shareholder security matters with the Company. To do this, please call +44 (0)1606 814 730 and ask to be put through to a member of the Company Secretarial department.

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Birmingham
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Stockbroker & Financial Advisers

Investec Bank plc
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Registrars

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Financial PR

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