

Corporate Governance

Compliance with the Code

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

Leadership

The Role of the Board

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

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

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

Board Membership and Responsibilities

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

Non-Executive Directors

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

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

Senior Independent Director

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

Role	Responsibilities
Chairman	<ul style="list-style-type: none"> • Lead the Board in the determination of its strategy and achievement of its objectives. • Ensure the effectiveness of the Board in all aspects of its role. • Facilitate the effective contribution of the Non-Executive Directors, ensuring that all decisions are subject to constructive debate and supported by sound decision making processes. • Ensure shareholder views are brought to the attention of the Board.
Chief Executive Officer	<ul style="list-style-type: none"> • Day-to-day management of the Group operations and leading the Senior Executive Team (SET). • Performance and results of the Group. • Propose strategy. • Execute strategy agreed by the Board.
Chief Financial Officer	<ul style="list-style-type: none"> • Responsible for financial planning and reporting for the Group. • Management of financial risk. • Develop and execute the strategic plan in conjunction with the Chief Executive Officer. • Secure funding as required.
Managing Director DVP EU	<ul style="list-style-type: none"> • Management of the segment which contributes the majority of Group revenue. • Nominated Director for health, safety and environmental matters. • Development and execution of strategy in the EU.
Non-Executive Directors	<ul style="list-style-type: none"> • Provide independent and constructive challenge. • Represent a broad range of commercial and industry experience and independent judgement. • Evaluate strategy and risks.

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Board Responsibilities

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

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

Matters Reserved for the Board

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

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

Board Meetings

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

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

● Meetings attended

† Mike Redmond retired on 21 October 2016. He attended all meetings prior to his retirement.

‡ Richard Cotton has attended all meetings since his appointment.

* Lawson Macartney has attended all meetings since his appointment.

§ Anne-Francoise Nesmes resigned on 31 July 2016. She attended all meetings prior to her resignation.

Tony Rice did not attend one ad hoc Nomination Committee meeting and two ad hoc Remuneration Committee meetings since his appointment.

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

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

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

Board Committees

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

Committee	Role and Terms of Reference	Committee Report on Pages
Audit	<p>The main responsibilities are:</p> <ul style="list-style-type: none"> • to monitor the integrity of the financial statements of the Group, and assist the Board in ensuring that the Annual Report, taken as a whole, is fair, balanced and understandable; • to review the effectiveness of the Group's internal financial control systems as described on page 77; • to oversee the relationship with and review the effectiveness of the external auditor, monitor their independence and objectivity, and set the policy for non-audit work; and • to review and approve the significant accounting policies. 	74 to 78
Remuneration	<p>The main responsibilities are:</p> <ul style="list-style-type: none"> • to determine the remuneration, bonuses, long term incentive arrangements, contract terms and other benefits in respect of the Executive Directors and the Chairman; • to oversee any major changes in employee benefit structures; and • to approve the design of any employee share schemes. 	81 to 101
Nomination	<p>The main responsibilities are:</p> <ul style="list-style-type: none"> • to oversee the plans for management succession; • to recommend appointments to the Board; • to evaluate the effectiveness of the Non-Executive Directors; and • to consider the structure, size and composition of the Board. 	79 and 80

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

Director Insurance and Indemnities

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

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Effectiveness

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

Board Balance and Independence

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

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

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

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

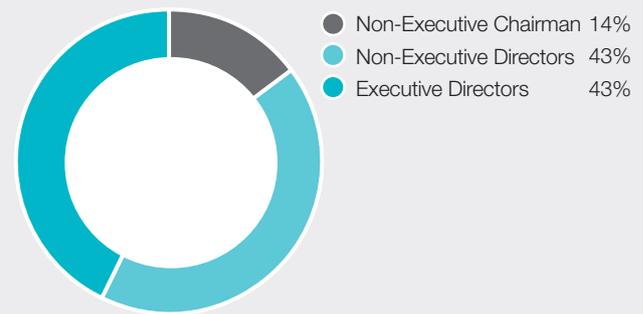
Length of Tenure of Chairman and Non-Executive Directors



Board Composition and Gender Diversity

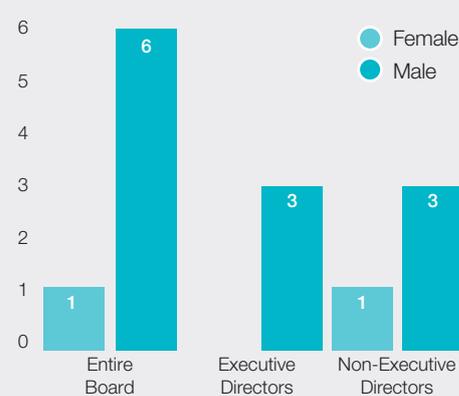
The Board seeks to ensure that the Board and the Committees have an appropriate composition to manage their duties effectively and to manage succession issues. The Board supports diversity in its broadest sense and considers it an essential driver of Board effectiveness. The Board recognises it is important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

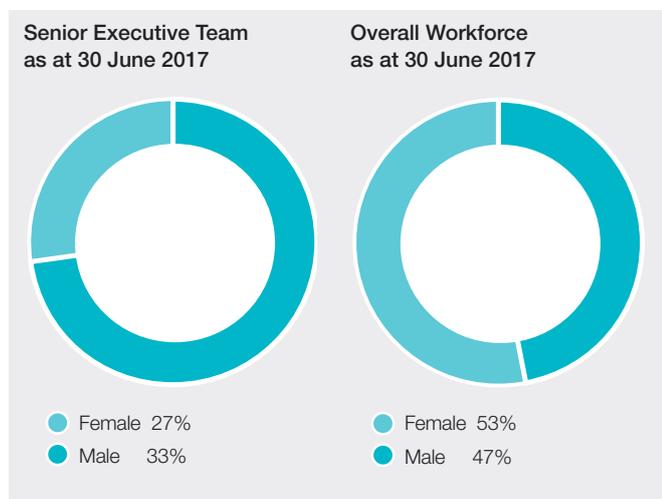
Board Composition



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

Gender Diversity





Conflicts of Interest and External Board Appointments

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

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

Induction and Training

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

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

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

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

Board Evaluation and Effectiveness

The effectiveness of the Board is important to the success of the Group and the Board undertakes an annual evaluation of its performance and that of its Committees, focusing on the following areas:

(i) Board composition; (ii) strategy review and delivery process; (iii) the format of Board meetings and the decision process; (iv) training and development; (v) the performance of the Board and the individual Directors; (vi) Corporate Governance; (vii) leadership and culture; and (viii) risk assessment.

- The 2016 Internal Board Evaluation

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

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

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

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

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

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

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

Appointment and Re-election of Directors

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

Accountability

Financial Reporting

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

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

Preservation of Value

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

Going Concern

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

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

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

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

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

Viability Statement

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

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

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

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

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

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

Internal Control and Risk Management

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

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

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

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

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

Relations with Shareholders

Dialogue with Institutional Shareholders

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

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

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

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

Constructive use of the Annual General Meeting

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

Tony Rice

Non-Executive Chairman
4 September 2017