THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this Circular or the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser who is authorised for the purposes of the Financial Services and Markets Act 2000 (as amended) ("FSMA") if you are in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

If you have sold or otherwise transferred all of your Ordinary Shares, please forward this Circular, but not any of the accompanying personalised documents to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. If you have sold or otherwise transferred only part of your holding of Ordinary Shares you should retain these documents.

This document is not a prospectus and does not constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell, otherwise dispose of or issue, or any solicitation of any offer to sell, otherwise dispose of, issue, purchase, otherwise acquire or subscribe for, any security. No prospectus relating to Dechra Pharmaceuticals PLC is required to be published in connection with the proposed Acquisition or issue of the Consideration Shares to AST Farma Shareholders and Le Vet Shareholders pursuant to the Acquisition or the issue of the Placing Shares to Placees pursuant to the Placing.

Applications will be made to the FCA for the New Dechra Shares to be admitted to the premium listing segment of the Official List, and will be made to the London Stock Exchange for the New Dechra Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission of the Placing Shares will become effective, and that dealings on the London Stock Exchange in the Placing Shares will commence, on 30 January 2018. It is expected that Admission of the Consideration Shares will become effective, and that dealings on the London Stock Exchange in the Consideration Shares will commence, on or shortly after Completion which, subject to the satisfaction of certain conditions, is expected to occur on 13 February 2018.

Dechra Pharmaceuticals PLC

(Incorporated in England and Wales, with registered no. 03369634)

Proposed acquisition of AST Farma B.V. and Le Vet Beheer B.V.

Notice of General Meeting

This document should be read as a whole. Your attention is drawn to the "Letter from the Chairman of Dechra Pharmaceuticals PLC" set out in Part I of this document which includes a unanimous recommendation from the Board that you vote in favour of the Resolutions to be proposed at the General Meeting referred to below.

Notice of the General Meeting of the Company convened for 9.30 a.m. on 12 February 2018 at the offices of Dechra at 6 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich CW9 7UA is set out at the end of this document. A form of proxy for use at the General Meeting is enclosed. To be valid, the accompanying Form of Proxy for use at the General Meeting must be completed, signed and returned as soon as possible but, in any event, so as to be received by the Company's Registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, by no later than 9.30 a.m. on 8 February 2018. Alternatively, a proxy may also be appointed, for CREST members, by using the CREST electronic proxy appointment service. For further details please see the notes to the Notice of the General Meeting set out at the end of this document.

Completion and return of a Form of Proxy will not prevent members from attending and voting in person should they wish to do so.

For a discussion of certain risk factors which should be taken into account when considering what action you should take in connection with the General Meeting, see the "Risk Factors" set out in Part II of this document.

The Acquisition is conditional, *inter alia*, upon the passing of the Acquisition Resolution. A summary of the action to be taken by holders of Ordinary Shares is set out on page 24 of this document and in the accompanying Notice of General Meeting.

Investec Bank plc ("**Investec**"), which is authorised by the Prudential Regulation Authority (the "**PRA**") and regulated by the Financial Conduct Authority (the "**FCA**") and the PRA in the United Kingdom, is acting solely for Dechra in relation to the Acquisition and the Placing and nobody else and will not be responsible to anyone other than Dechra for providing the protections afforded to clients of Investec nor for providing advice in relation to the Acquisition and the Placing or any other matter referred to in this document. Apart from the responsibilities and liabilities, if any, which may be imposed upon Investec by the Financial Services and Markets Act 2000, as amended ("**FSMA**"), or the regulatory regime established thereunder, Investec does not accept any responsibility whatsoever or make any representation or warranty, express or implied, concerning the contents of this document, including its accuracy, completeness or verification, or concerning any other statement made or purported to be made by it, or on its behalf, in connection with Dechra, the Acquisition or the Placing and nothing in this document is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or future. Investec accordingly disclaims, to the fullest extent permitted by law, all and any responsibility and liability whether arising in tort, contract or otherwise (save as referred to in this document) which it might otherwise have in respect of this document or any such statement.

Copies of this document are available free of charge from the Company's registered office during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) up to and including the date of the General Meeting and will also be available for inspection at the General Meeting for at least 15 minutes prior to and during the meeting.

TABLE OF CONTENTS

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates in the table below is indicative only and may be subject to change.

Announcement of the Acquisition and the Placing	25 January 2018
Publication of this Circular	26 January 2018
Expected date of Admission and commencement of dealings in the Placing Shares on the London Stock Exchange	30 January 2018
Latest time and date for receipt of the Forms of Proxy for use at the General Meeting	9.30 a.m. on 8 February 2018
General Meeting	9.30 a.m. on 12 February 2018
Expected completion date of the Acquisition	13 February 2018
Expected date of Admission and commencement of dealings in the Consideration Shares on the London Stock Exchange	13 February 2018

Notes:

1. *If any of the above times and/or dates change, the revised times and/or dates will be notified to Shareholders by an announcement through the Regulatory Information Service of the London Stock Exchange.*
2. *All times shown in this document are London times unless otherwise stated.*

PLACING STATISTICS

Placing Price per Placing Share	2050 pence
Number of Ordinary Shares in issue at the date of this document	93,491,670
Number of Placing Shares to be issued pursuant to the Placing	5,121,952
Number of Consideration Shares to be issued pursuant to the Acquisition	3,670,625
Number of Ordinary Shares in issue following the issue of the Placing Shares and Consideration Shares	102,284,247
Placing Shares as a percentage of the enlarged issued share capital of Dechra following the Placing and completion of the Acquisition	5.01 per cent.
Estimated gross proceeds of the Placing	£105.0 million
Estimated net proceeds of the Placing	£100.0 million

IMPORTANT INFORMATION

Forward-looking statements

This document (including the information incorporated into it by reference) includes forward-looking statements. The words "believe", "anticipate", "expect", "intend", "aim", "plan", "predict", "continue", "assume", "positioned", "may", "will", "should", "shall", "risk" and other similar expressions that are predictions of or indicate future events and future trends identify forward-looking statements. These forward-looking statements include all matters that are not current or historical facts. In particular, the statements of Dechra regarding Dechra's strategy, future financial position and other future events or prospects are forward-looking statements. These forward-looking statements also include statements regarding the intentions, belief or current expectations of the Directors, Dechra or the Dechra Group concerning, among other things, the results of operations, expectations in respect of the Acquisition, final condition, liquidity, prospects, growth and strategies of the Dechra Group. By their nature, forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the control of the Dechra Group, which could cause the actual results of the Dechra Group to differ materially from those indicated in any such statements. Such factors include, but are not limited to, poor investment performance, increased rates of redemptions, the inability of the Dechra Group to obtain favourable leverage, the potential illiquidity of assets, the Dechra Group's indebtedness, increased competition, fluctuations in currency exchange rates, failure to attract and retain key personnel, risks associated with concentration and counterparty default, adverse regulatory developments or changes in government policy, misconduct of employees, changes in laws, third party litigation risk, failure to obtain necessary regulatory consent, legal proceedings relating to the Acquisition and disruptions to the Dechra Group's business because of a failure to complete the Acquisition. Shareholders should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are in many cases beyond the control of the Dechra Group. By their nature, forward-looking statements involve risks and uncertainties because such statements relate to events and depend on circumstances that may or may not occur in the future.

Forward-looking statements are not indicative of future performance and the actual results of operations and financial condition of the Dechra Group, and the development of the industry in which the Dechra Group operates, may differ materially from those made in or suggested by the forward-looking statements contained in this document. Important risk factors which may cause actual results to differ include, but are not limited to, those described in Part II (*Risk Factors*) of this document.

These forward-looking statements reflect Dechra's judgement at the date of this document and are not intended to give any assurances as to future results. To the extent required by the Listing Rules, the Prospectus Rules, the Disclosure Guidance and Transparency Rules and other applicable regulations, Dechra will update or revise the information in this document. Otherwise, Dechra undertakes no obligation to update or revise any forward-looking statements, and will not publicly release any revisions it may make to these forward-looking statements that may result from events or circumstances arising after the date of this document. Dechra will comply with its obligations to publish updated information as required by law or by any regulatory authority but assumes no further obligation to publish additional information. Shareholders should note that this paragraph is not intended to qualify the statement as to working capital set out in paragraph 9 of Part VI (*Additional Information*) of this document.

The cautionary statements set out above should be considered in connection with any subsequent written or oral forward-looking statements that Dechra, the Dechra Group, or persons acting on its or their behalf, may issue. No cautionary statement set out above seeks to qualify or should be treated as qualifying the working capital statement set out in paragraph 9 of Part VI (*Additional Information*) of this document.

Forward-looking statements contained in this document apply only as at the date of this document. Subject to any obligations under the Listing Rules and the Disclosure and Transparency Rules or any other applicable law or regulation, Dechra undertakes no obligation to publicly update or review any forward-looking statements whether as a result of new information, future developments or otherwise.

No profit forecasts or estimates

Unless otherwise stated, no statement in this document is intended as a profit forecast or estimate for any period and no statement in this document should be interpreted to mean that earnings or EPS for Dechra, AST Farma or Le Vet, as appropriate, for the current or future financial years would necessarily match or exceed the historical published earnings or EPS for Dechra, AST Farma or Le Vet, as appropriate.

General

Shareholders should only rely on the information contained in this document. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representation must not be relied upon as having been so authorised by Dechra, the Dechra Directors or Investec. No representation or warranty, express or implied, is made by Investec as to the accuracy or completeness of such information, and nothing contained in this document is, or shall be relied upon as, a promise or representation by Investec as to the past, present or future.

Dechra will update the information provided in this document by means of a supplementary circular if a significant new factor, material mistake or inaccuracy arises or is noted relating to the information included in this document. Any supplementary circular will be subject to approval by the FCA and will be made public in accordance with the Listing Rules. Dechra will comply with its obligation to publish supplementary circulars containing further updated information required by law or by any regulatory authority but assumes no further obligation to publish additional information.

AST Farma information

Unless otherwise indicated, the selected financial information included in this document related to AST Farma has been extracted without material adjustment from the AST Farma Group's audited historical financial information contained in Part IV (B) (*Historical Financial Information on AST Farma B.V.*) of this document. The historical consolidated financial information relating to the AST Farma Group for the three years ended 31 December 2016 has been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("**IFRS**") and is presented in a form consistent with Dechra's accounting policies. The AST Farma Group has applied IFRS for the first time in these statements of historic financial information, from 1 January 2014 (date of transition) to 31 December 2016.

Le Vet information

Unless otherwise indicated, the selected financial information included in this document related to Le Vet has been extracted without material adjustment from the Le Vet Group's historical financial information contained in Part IV (D) (*Historical Financial Information on Le Vet Beheer B.V.*) of this document. The historical consolidated financial information relating to the Le Vet Group for the three years ended 31 December 2016 has been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("**IFRS**") and is presented in a form consistent with Dechra's accounting policies. The Le Vet Group has applied IFRS for the first time in these statements of historic financial information, from 1 January 2014 (date of transition) to 31 December 2016. The Reporting Accountants ("PwC") have performed a review of the audit files and performed additional testing where necessary to issue their opinion on the financial information of Le Vet which has been included in Part IV (D) of this document. PwC's conclusion at the end of their work was the same as that of the previous auditor. PwC have not been able to obtain sufficient audit evidence to provide a basis for an opinion in respect of the financial information for the three years ended 31 December 2016 included in the Financial Information Table. Accordingly they do not express an opinion on the financial information included in the Financial Information Table prepared for the purposes of this Circular.

Enlarged Group financial information

Following Completion, AST Farma and Le Vet will be subsidiaries of Dechra, and the accounting policies applied by AST Farma and Le Vet will continue to be the same as those applied by Dechra. In addition, for the purposes of financial information prepared for the Enlarged Group, each of AST Farma and Le Vet will be a consolidated subsidiary of Dechra under IFRS.

Pro forma financial information

In this document, unless otherwise stated, any reference to 'pro forma' financial information is to information which has been extracted without material adjustment from the unaudited pro forma financial information contained in Part V (B) (*Unaudited Pro Forma Statement of New Assets of the Enlarged Group*) of this document.

The unaudited pro forma financial information has been prepared for illustrative purposes only and, by its nature, addresses a hypothetical situation. It does not, therefore, represent the Enlarged Group's actual financial position or results.

Future results of operations may differ materially from those presented in the pro forma information due to various factors.

Rounding

Percentages and certain amounts included in this document have been rounded for ease of presentation. Accordingly, figures shown as totals in certain tables may not be the precise sum of the figures that precede them.

Currencies

Unless otherwise indicated in this document:

- all references to "pound sterling", "£" or "pence" are to the lawful currency of the UK;
- all references to "euro", "€" or "cents" are to the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Economic Community (signed in Rome on 25 March 1957), as amended; and
- all references to "dollar", "$" or "cents" are to the lawful currency of the United States.

Unless otherwise indicated, the financial information contained in this document has been expressed in pound sterling. The Dechra Group presents its financial statements in pound sterling.

No incorporation by reference of website information

Unless otherwise specified in this document, neither the content of Dechra's website, nor the content of any document or website accessible from hyperlinks on Dechra's website, is incorporated into, or forms part of, this document and Shareholders should not rely on them, without prejudice to the information expressly incorporated by reference into this document, which will be made available on Dechra's website.

Defined terms

Certain terms used in this document are defined as set out in the section headed "Definitions" of this document. Certain technical and other terms used in this document are more particularly detailed in the section headed "*Glossary*" of this document.

All times referred to in this document are, unless otherwise stated, references to London time.

All references to legislation in this document are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation or regulation shall include any amendment, modification, re-enactment or extension thereof.

Words importing the singular shall include the plural and *vice versa*, and words importing the masculine gender shall include the feminine or neutral gender.

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Tony Rice	*(Non-Executive Chairman)*
	Ian Page	*(Chief Executive Officer)*
	Richard Cotton	*(Chief Financial Officer)*
	Tony Griffin	*(Managing Director of Dechra Veterinary Products EU)*
	Ishbel Macpherson	*(Senior Independent Non-Executive Director)*
	Julian Heslop	*(Non-Executive Director)*
	Lawson Macartney	*(Non-Executive Director)*
Company Secretary	Melanie Hall	
Registered Office	24 Cheshire Avenue Cheshire Business Park Lostock Gralam Northwich CW9 7UA	
Website address	www.dechra.com	
Sponsor, Financial Advisor and Broker	Investec Bank plc 2 Gresham Street London EC2V 7QP	
Legal Advisor	DLA Piper UK LLP Victoria Square House Victoria Square Birmingham B2 4DL	
Reporting Accountants	KPMG LLP Snow Hill Queensway Birmingham B4 6GH	
	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH	
Auditor	PricewaterhouseCoopers LLP Cornwall Court 19 Cornwall Street Birmingham B3 2DT	
Registrars	Equiniti Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA	

DEFINITIONS

The following definitions apply throughout this Circular and the accompanying Form of Proxy unless the context otherwise requires. Certain technical and other terms used in this document are more particularly detailed in the section headed "*Glossary*" of this document.

"**2006 Act**"	the UK Companies Act 2006;
"**2015 Annual Report**"	the audited consolidated financial statements of Dechra for the year ended 30 June 2015;
"**2016 Annual Report**"	the audited consolidated financial statements of Dechra for the year ended 30 June 2016;
"**2017 Annual Report**"	the audited consolidated financial statements of Dechra for the year ended 30 June 2017;
"**Acquisition**"	the proposed acquisition by the Group of AST Farma and Le Vet pursuant to the Share Purchase Agreement;
"**Acquisition Resolution**"	the ordinary resolution (Resolution number 1) to be proposed at the General Meeting to approve the Acquisition;
"**Admission**"	the admission of the New Dechra Shares to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities becoming effective in accordance with, respectively, the Listing Rules and the Admission and Disclosure Standards;
"**Admission and Disclosure Standards**"	the rules published by the London Stock Exchange containing, amongst others, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange's main market for Listed Securities;
"**AGM**"	annual general meeting;
"**AST Farma**"	AST Farma B.V.;
"**AST Farma Group**"	AST Farma and its subsidiaries and "member of the AST Farma Group" shall be construed accordingly;
"**Average Closing Price**"	2031 pence per Ordinary Share, being the average of the middle market closing price of an Ordinary Share for the 30 days up to and including 24 January 2018 (being the last Business Day prior to the announcement of the proposed Acquisition), as derived from the Daily Official List;
"**Business Day**"	a day (other than a Saturday or Sunday) in which clearing banks in the City of London are generally open for business;
"**Certificated**" or "**in certificated form**"	in certificated form (that is, not in CREST);
"**Circular**" or "**document**"	this document, including the information incorporated into it by reference;
"**Company**" or "**Dechra**"	Dechra Pharmaceuticals PLC;
"**Completion**"	completion of the Acquisition in accordance with the terms of the Share Purchase Agreement;

“**Consideration**”	the consideration payable by the Company to the Sellers, being €255.0 million (euro) in cash and 3,670,625 Ordinary Shares (equating to €85.0 million (euro) based on the Average Closing Price), in each case subject to adjustment as provided for in the Share Purchase Agreement;
“**Consideration Shares**”	the 3,670,625 Ordinary Shares to be issued to the Sellers as part settlement of the Consideration;
“**CREST**”	the relevant system (as defined in the Regulations) in respect of which Euroclear is the operator (as defined in the Regulations);
“**CREST Proxy Instruction**”	the form of appointment of proxy to vote through the Euroclear system;
“**Daily Official List**”	the daily official list of the London Stock Exchange;
“**Directors**” or the “**Board**”	the directors of the Company whose names are set out on page 7 of this document;
“**DTR**”	the Disclosure Guidance and Transparency Rules published by the FCA pursuant to Part VI of the FSMA, as amended from time to time;
“**Enlarged Group**”	the Company as enlarged by the Acquisition;
“**Equiniti**” or the “**Registrars**”	Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA;
“**EU**”	the European Union;
“**Euroclear**”	Euroclear UK & Ireland Limited;
“**Executive Directors**”	the executive directors of the Company, being Ian Page, Richard Cotton and Tony Griffin;
“**Existing Facility Agreement**”	a multicurrency revolving credit facility agreement dated 25 July 2017 made between (1) Dechra Pharmaceuticals PLC, (2) the subsidiaries of the Company listed therein as Original Borrowers and Original Guarantors, (3) Abbey National Treasury Services Plc, HSBC Bank plc, BNP Paribas, London Branch, Fifth Third Bank, Lloyds Bank plc, The Governor and Company of the Bank of Ireland and Raiffeisen Bank International AG as Arrangers, (4) Abbey National Treasury Services Plc, HSBC Bank plc, BNP Paribas, London Branch and Fifth Third Bank as Bookrunners and (5) Santander UK plc as Agent;
“**FCA**”	the UK Financial Conduct Authority;
“**Forms of Proxy**”	the pre-paid form of proxy accompanying this document for use by Shareholders in connection with the General Meeting;
“**FSMA**”	the UK Financial Services and Markets Act 2000, as amended from time to time;
“**General Meeting**”	the general meeting of the Company convened for the purpose of considering the Resolutions to be held at 9.30 a.m. on 12 February 2018, notice of which is set at the end of this Circular;
“**Group**” or “**Dechra Group**”	the Company and its subsidiaries and “member of the Group” shall be construed accordingly;

"**Investec**"	Investec Bank plc;
"**Le Vet**"	Le Vet Beheer B.V.;
"**Le Vet Group**"	Le Vet and its subsidiaries and "member of the Le Vet Group" shall be construed accordingly;
"**Listing Rules**"	the Listing Rules of the UKLA under the FSMA;
"**London Stock Exchange**"	London Stock Exchange plc;
"**LTIP**"	the Long Term Incentive Plan;
"**New Dechra Shares**"	the Consideration Shares and the Placing Shares;
"**New Facility Agreement**"	a multi-currency term loan facility in an aggregate amount equal to £350.0 million as more particularly detailed in paragraph 2 (*New Facility Agreement*) of Part III (*Summary of the Acquisition and New Facility Agreement*) of this Circular;
"**Notice**"	the notice of General Meeting, which is set out at the end of this Circular;
"**Official List**"	the Official List of the FCA;
"**Ordinary Shares**"	ordinary shares of 1 pence each in the capital of the Company;
"**Placees**"	the subscribers for Placing Shares pursuant to the Placing;
"**Placing**"	the conditional placing of the Placing Shares by the Company at the Placing Price pursuant to the terms of the Placing Agreement;
"**Placing Agreement**"	the agreement between the Company and Investec dated 24 January 2018 in connection with the Placing;
"**Placing Price**"	the issue price of 2050 pence per Placing Share pursuant to the Placing;
"**Placing Shares**"	the 5,121,952 new Ordinary Shares to be issued and allotted at the Placing Price pursuant to the Placing;
"**Prospectus Rules**"	the prospectus rules made by the FCA for the purposes of Part VI of FSMA;
"**Purchasers**"	the Company and Dechra Finance B.V.;
"**Regulations**"	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755);
"**Reporting Accountant (KPMG)**"	KPMG LLP of One Snowhill Queensway, Birmingham B4 6GH;
"**Reporting Accountant (PwC)**"	PricewaterhouseCoopers LLP of 1 Embankment Place, London WC2N 6RH;
"**Resolutions**"	the resolutions set out in the Notice;
"**SAYE**"	the "Save As You Earn" scheme;
"**Sellers**"	Stichting Beheer Hippo and Stichting Beheer Stokstaart, both limited partnerships incorporated under the laws of the Netherlands, having their registered office in Utrecht, the Netherlands;

"**Share Purchase Agreement**"	the conditional share purchase agreement dated 24 January 2018 between the Purchasers and the Sellers relating to the Acquisition as more particularly detailed in Part III (*Summary of the Acquisition and New Facility Agreement*) of this document, a copy of which will be on display at the address specified in paragraph 13 of Part VI (*Additional Information*) of this document;
"**Shareholders**"	holders of Ordinary Shares;
"**subsidiary**"	as defined in section 1159 of the 2006 Act;
"**UK**" or "**United Kingdom**"	the United Kingdom of Great Britain and Northern Ireland;
"**UKLA**" or "**UK Listing Authority**"	the FCA acting in its capacity as the competent authority for the purpose of Part VI of the FSMA; and
"**Uncertificated form**"	held in uncertificated form in CREST and title to which, by virtue of the Regulations may be transferred by means of CREST.

PART I

LETTER FROM THE CHAIRMAN OF

Dechra Pharmaceuticals PLC

(a company incorporated in England and Wales with registered no. 03369634)

Directors:	*Registered and Head Office:*
Tony Rice *(Non-Executive Chairman)*	24 Cheshire Avenue
Ian Page *(Chief Executive Officer)*	Cheshire Business Park
Richard Cotton *(Chief Financial Officer)*	Lostock Gralam
Tony Griffin *(Managing Director of Dechra Veterinary Products EU)*	Northwich
Ishbel Macpherson *(Senior Independent Non-Executive Director)*	CW9 7UA
Julian Heslop *(Non-Executive Director)*	
Lawson Macartney *(Non-Executive Director)*	

26 January 2018

To Dechra Shareholders and, for information purposes only, persons with information rights

Dear Shareholder,

Proposed acquisition of AST Farma B.V. and Le Vet Beheer B.V. ("Acquisition")

Notice of General Meeting

1. Introduction

Your Board announced on 25 January 2018 that it has conditionally agreed to acquire both AST Farma and Le Vet who are European developers of generic, generic plus and niche novel animal pharmaceutical products predominantly for companion animals.

Under the terms of the Acquisition, Dechra is paying to the Sellers an aggregate consideration of €340.0 million (£298.2 million) on a debt-free cash-free basis, subject to adjustment for working capital. The total consideration of €340.0 million is being satisfied €85.0 million through the issue of the Consideration Shares, with the balance of €255.0 million (£223.7 million) to be paid in cash. The principal terms of the Share Purchase Agreement are described in more detail in Part III (*Summary of the Acquisition and New Facility Agreement*) of this document.

The Company also announced on the same date that it had conditionally raised approximately £105.0 million (€119.7 million) via the Placing with institutional investors. The net proceeds of approximately £100.0 million (€114.0 million) will be used to fund the Consideration in part. The balance of the cash element of the Consideration of approximately €141.0 million (£123.7 million), will be funded through new debt facilities.

Dechra has worked with AST Farma and Le Vet for a number of years, beginning with Dechra's acquisition of Eurovet Animal Health B.V. ("**Eurovet**") in 2012. In more recent years, the relationship has expanded through further distribution agreements for certain products and was further enhanced when Dechra acquired Genera in 2015, with whom AST Farma and Le Vet had an existing relationship. Dechra is a distributor of a number of AST Farma's and Le Vet's products in the following countries: UK, Ireland, France, Italy, Norway, Sweden, Denmark, Spain, Portugal, Poland, Slovenia, Croatia, Bosnia Herzegovina, Serbia, Macedonia and Kosovo. Today, Dechra accounts for approximately 13 per cent. of the combined turnover of AST Farma and Le Vet.

The Acquisition, to be effected by the Share Purchase Agreement, constitutes a Class 1 transaction for the Company under the Listing Rules and therefore requires and is conditional on, *inter alia*, Shareholder approval. Accordingly, the General Meeting has been convened to consider certain business which includes, but is not limited to, the Acquisition Resolution and will be held at the offices of Dechra at 6 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich CW9 7UA at 9.30 a.m. on 12 February 2018. The Notice of General Meeting is set out at the end of this Circular.

The purpose of this Circular is to: (i) provide Shareholders with details of the Acquisition and the Placing, as well as information on AST Farma and Le Vet; (ii) explain why the Board considers the Acquisition to be in the best interests of the Company and its Shareholders as a whole; and (iii) explain why the Board recommends that Shareholders vote in favour of all of the Resolutions but, in particular, the Resolution approving the Acquisition at the General Meeting.

Shareholders should read the whole of this document and not just rely on the summarised information set out in this letter.

2. Background to and reasons for the Acquisition

Dechra's strategy

Dechra's objectives are to innovate, develop, register, acquire, manufacture, supply and market high quality products to the veterinary profession worldwide. Dechra also offers high levels of service, technical support and educational training to support the Dechra brand and to develop strong relationships and be recognised as an important partner to veterinarians.

To support the objectives, Dechra's four strategic growth drivers are summarised as follows:

- ***Pipeline Delivery:*** Dechra aims to deliver its pipeline on time, at the right costs and with the expected returns. It is also important that the Group refills the pipeline so that it has a constant flow of new products in future years.
- ***Portfolio Focus:*** Dechra is a specialist veterinary pharmaceuticals business focused on Companion Animal Products, Equine, Food producing Animal Products and Nutrition. The Group is looking to maximise its revenue by focusing on clearly defined therapeutic sectors.
- ***Geographical Expansion:*** Dechra has identified a number of markets that present both volume and profit opportunities in the medium to long term. The Group's entry strategies will vary depending on the local market dynamics.
- ***Acquisition:*** Dechra's priority is to target strategic acquisitions that expand the Group's geographical footprint and/or enhance its product portfolio.

The Directors believe the Acquisition fits with these strategic growth drivers, by providing further scale in existing markets, broadening its product offering and expanding its pipeline re-enforcing their strategic growth drivers of pipeline delivery and portfolio focus.

3. Information on AST Farma and Le Vet

AST Farma is ultimately a wholly-owned subsidiary of STAK AST Beheer B.V., a company incorporated in the Netherlands and whose only shareholder is Sebastiaan Tesink. Le Vet is ultimately owned 50 per cent. by STAK AST Beheer B.V. and 50 per cent. by STAK A.C.W Pharma B.V., a company incorporated in the Netherlands whose only shareholder is Alexander Tesink, the brother of Sebastiaan Tesink.

AST Farma is one of the leading companion animal pharmaceutical companies in the Netherlands, focused on generic plus products. It was established in 1999 by Sebastiaan Tesink, starting with a small range of companion animal products he had acquired. The business and its reputation have grown strongly through launching niche products, including ranges for minor species, and by offering added value services to veterinarians such as customised dispensing boxes, dosing information, vaccine books and syringes. Market research in the Netherlands assessing customers' opinions of suppliers has consistently scored AST Farma as number one or two among companion animal veterinarians.

The Directors consider AST Farma to be an innovative and customer orientated company. The Directors consider that part of its success in this regard is due to its direct to vet delivery model, with the majority of sales going direct rather than through a wholesaler. Over the past approximately 15 years, AST Farma has been focused on developing quality generic plus products, often as the first veterinary licenced product behind the originator product, similar to what Dechra has been doing with their own product development strategy.

Le Vet, established by Alexander Tesink, has focused on the European markets outside of the Netherlands and began operations in 2002. Working closely with AST Farma, Le Vet has developed a strong portfolio of products registered in Europe, and established a network of marketing partners, including Dechra, to sell them.

AST Farma currently has approximately 90 pharmaceutical products which it markets in the Netherlands, of which 70 are registered by AST Farma. 60 of these products are registered by Le Vet in all EU member states and marketed through a network of distribution partners. For the year ended 31 December 2016, revenues for AST Farma and Le Vet were derived as to approximately 80 per cent. from CAP, 10 per cent. from Equine and 10 per cent. from farm animals. Approximately 90 per cent. of revenues are from the sale of generic and generic plus products, however they do have some innovative niche products, including a recently approved novel CAP pain product. The main categories are antibiotic tablets for dogs and cats, anaesthesia and analgesia for dogs, cats and horses, and a range of ear and eye preparations for dogs and cats. While mostly generic in nature, the companies have been very successful in adding value compared to the originator by developing flavoured tablets, improving administration methods, reducing pain by administration and by adding indications and species. In addition they have been successful in taking a number of products from human medicine and registering the first veterinary version.

A selection of AST Farma and Le Vet's registered products include:

(a) Clavubactin® – in their portfolio since 2002 with Mutual Recognition in 2003, this is an improved version of Synulox, a widely used antibiotic used for the treatment of a wide range of infections in dogs.

(b) Metrobactin® – in their portfolio since 2015 after completion of a Decentralised Procedure to all EU member states in that same year. The first veterinary registered Metronidazol for the treatment of a wide range of infections in dogs and cats.

(c) Phenoleptil® – in their portfolio since 2009 with Mutual Recognition in 2010 and 2012, Fenobarbital tablets for the treatment of epilepsy in dogs.

(d) Prevomax® – in their portfolio since 2017 after completion of a Centralised Procedure to all EU member states, an improved version of Cerenia for the treatment of nausea and vomiting in dogs and cats.

(e) Prednicortone® – in their portfolio since 2015 after completion of a Decentralised Procedure to all EU member states, for the symptomatic treatment or as adjunct treatment of inflammatory and immune-mediated diseases in dogs and cats.

(f) Equisolon® – in their portfolio since 2014 after completion of a Centralised Procedure to all EU member states, for the alleviation of inflammatory and clinical parameters associated with recurrent airway obstruction in horses.

In addition to those products currently registered and being marketed and sold, AST Farma and Le Vet have a strong pipeline of over 30 generic and generic plus products in development, including eight already submitted for EU registration. Additionally, in recent weeks, two products have been successfully approved which will be marketed soon after Completion, one of which is the first Pan European veterinary license for the use of Tramadol for pain relief in dogs. The Directors believe that the success of AST Farma and Le Vet in recent years of achieving product approvals in the EU, added to these very recent licenses, should lead to a good conversion of the existing pipeline. The pipeline will further expand Dechra's offering to companion animal and equine practitioners, while at the same time add increased strength and depth to our current focus therapeutic areas.

In terms of manufacturing and product development, whilst AST Farma and Le Vet do not have these capabilities, they do exist in the wider group owned by Sebastiaan and Alexander Tesink, with the majority of the manufacturing undertaken by these other companies and the balance by third parties. The manufacturing and product development capabilities do not form part of the Acquisition, however AST Farma and Le Vet will enter into ongoing agreements as part of the Acquisition to maintain access to these capabilities to continue the development of the product pipeline Dechra is acquiring as part of the Acquisition. In addition, Dechra will have a right of first refusal to products at a much earlier stage in their development and which do not form part of this transaction. See Part III (*Summary of the Acquisition and New Facility Agreement*) of this document for further information in respect of the Share Purchase Agreement.

Both AST Farma and Le Vet are based in Oudewater in the Netherlands and employ, together, approximately 30 people. The employees comprise teams in sales, regulatory, customer services, finance and warehouse and logistics. Alexander and Sebastiaan Tesink are not joining Dechra following the Acquisition. However, they have each entered into a consultancy agreement to assist with the transition and will, in aggregate, through their respective holding companies be a 3.59 per cent. shareholder of the Enlarged Group as a result of the Consideration Shares to be issued pursuant to the Acquisition (based on the number of Ordinary Shares in issue as at 25 January 2018 (being the latest practicable date prior to publication of this document) together with the Consideration Shares and the Placing Shares). In addition, Dechra will continue to have access to the necessary product development expertise (as described above) following Completion until such time as the acquired pipeline is registered.

4. Reasons for the acquisition of AST Farma and Le Vet

- ***Enhance the Group's offering in the Netherlands and across Europe:*** the addition of AST Farma to Dechra's existing operations in the Netherlands will provide critical mass. Dechra would look to build upon AST Farma's reputation within the Dutch market and share best practice with its existing business to provide a stronger partner for companion animal veterinarians in the Netherlands through the combined product ranges.

- ***New opportunities with AST Farma direct to vet model:*** as described above, AST Farma in the Netherlands employ a direct to vet model which avoids the use of wholesalers. Dechra will look to use these relationships to develop new opportunities, particularly with its existing range of products which are currently sold in the Netherlands through wholesalers.

- ***Access to a broad portfolio of products:*** both in the Netherlands and across Europe, Dechra will gain access to a broad portfolio of over 90 registered products, which will strengthen the Group's position in key markets. In certain markets, notably Germany and Belgium, Dechra does not currently have access to any of AST Farma and Le Vet's products.

- ***Access to a robust pipeline:*** in line with one of Dechra's four strategic growth drivers, Pipeline Delivery, the acquisition of AST Farma and Le Vet will provide access to a pipeline of over 30 products, including eight already submitted for EU registration, which will materially enhance Dechra's own product pipeline within its current companion animal and therapeutic areas of focus. In addition, following the Acquisition, Sebastiaan and Alexander Tesink will continue to develop further novel products outside of the Enlarged Group and which are not included in the accessible pipeline of products mentioned above. As a result and as part of the Acquisition, Dechra has entered into a five year agreement that gives us the right of first refusal to acquire the marketing rights in respect of any such products developed by Sebastiaan and Alexander Tesink.

- ***Attractive financial returns for Dechra:*** the Acquisition is expected to be materially earnings enhancing for the year ending 30 June 2019, the first full financial year of ownership, and to deliver returns in excess of Dechra's cost of capital in a timely manner.

- ***Synergy benefits:*** the Directors believe there will be potential synergy benefits from the Acquisition. These will fall into three areas:

  - Revenue synergies: the main target will be to bring sales that are currently made through third party marketing partners in-house over time and retain the distributor margin, which would be material.

  - Cost synergies: there will be some minor cost synergies through removing duplicated functions.

  - Manufacturing: the existing contract manufacturers of AST Farma and Le Vet are also the same partners for Dechra, which limits the short term need for any manufacturing integration. Over time, Dechra could look to bring some of this manufacturing in-house.

5. Summary Financial Information on AST Farma and Le Vet

AST Farma

Reported financial information on AST Farma is for the three years ended 31 December 2016 and is set out in Part IV (B) (*Historical Financial Information on AST Farma B.V.*) of this document. A summary of the trading results for AST Farma as extracted without material adjustment from the financial information in Part IV (B) (*Historical Financial Information on AST Farma B.V.*) of this document is set out below. The AST Farma Group has applied IFRS for the first time in these statements of historic financial information, from 1 January 2014 (date of transition) to 31 December 2016. Shareholders should read the whole of this Circular and should not rely on this summary.

	2014 *€m*	*2015* *€m*	*2016* *€m*
Turnover	17.2	18.2	19.9
EBITDA	7.5	8.1	9.0
Adjusted EBITDA	8.4	9.1	10.0
Operating profit	7.4	8.0	8.9
Adjusted operating profit	8.3	9.0	10.0
Total gross assets	4.1	4.7	5.2
Net assets	1.1	1.2	1.3

EBITDA is operating profit before depreciation and amortisation. Adjusted operating profit and adjusted EBITDA is operating profit and EBITDA, respectively, after adding back royalties of €0.9 million, €1.0 million and €1.0 million in 2014, 2015 and 2016, respectively. These royalties relate to costs paid by AST Farma to AST Farma Beheer B.V. in relation to certain product registrations held by AST Farma Beheer B.V. which is the parent company of AST Farma. As part of the Acquisition, these products are being transferred to AST Farma and the royalty costs will no longer be paid following Completion. Some product development costs have been expensed in line with Dechra's accounting policies.

Le Vet

Reported financial information on Le Vet is for the three years ended 31 December 2016 and is set out in Part IV (D) (*Historical Financial Information on Le Vet Beheer B.V.*) of this document. A summary of the trading results for Le Vet as extracted without material adjustment from the financial information in Part IV (D) (*Historical Financial Information on Le Vet Beheer B.V.*) of this document is set out below. The Le Vet Group has applied IFRS for the first time in these statements of historic financial information, from 1 January 2014 (date of transition) to 31 December 2016. Shareholders should read the whole of this Circular and should not rely on this summary.

	2014 *€m*	*2015* *€m*	*2016* *€m*
Turnover	12.2	15.7	23.2
EBITDA	1.1	2.3	3.1
Adjusted EBITDA	2.9	4.5	8.1
Operating profit	0.6	1.8	2.1
Adjusted operating profit	2.4	3.9	7.0
Total gross assets	6.8	8.0	14.4
Net assets	3.5	5.0	6.8

EBITDA is operating profit before depreciation and amortisation. Adjusted operating profit and adjusted EBITDA is operating profit and EBITDA, respectively, after adding back royalties of €1.8 million, €2.1 million and €5.0 million in 2014, 2015 and 2016 respectively. These royalties relate to costs paid by Le Vet to AST Farma Beheer B.V. in relation to certain product registrations held by AST Farma Beheer B.V. which is the parent company of AST Farma. As part of the Acquisition, these products are being transferred to Le Vet and the royalty costs will no longer be paid following Completion. Some product development costs have been expensed in line with Dechra's accounting policies.

Le Vet holds interests in certain third party companies which do not form part of the Acquisition and are being transferred out of Le Vet before Completion. As a result the income from "Share of profit of investments accounted for using the equity method" in the Consolidated Statement of Profit and Loss for Le Vet, which was €80,297, €168,755 and €186,174 in 2014, 2015 and 2016, respectively, will no longer be earned by the Enlarged Group. Similarly, the carrying values for the shares in these third party companies in the Consolidated Balance Sheet of Le Vet will no longer form part of the Enlarged Group balance sheet.

The Listing Rules require audited historical financial information covering the latest three financial years and to be reported on without modification, or where there is a modified audit opinion, an explanation as to its significance and why the Directors are able to continue to recommend the Acquisition.

In relation to Le Vet, their company's auditors have been unable to perform sufficient audit procedures to obtain reasonable assurance as to the completeness of turnover and related financial items. The two principal reasons for this are (i) a lack of segregation of duties within Le Vet's finance function, which was undertaken by one employee; and (ii) the absence of a formal inventory count coupled with inventory valuation issues in 2014, means it has not been possible to reconcile between opening inventory balances, purchases, sales and closing inventory balance.

PricewaterhouseCoopers LLP (as a reporting accountant) ("**PwC**") have performed a review of the audit files and performed additional testing where necessary to issue their opinion on the financial information of Le Vet which has been included in Part IV (C) (*Accountant's Report on the Historical Financial Information on Le Vet Beheer B.V.*) of this document. PwC's conclusion at the end of their work was the same as that of the previous auditor. PwC have not been able to obtain sufficient audit evidence to provide a basis for an opinion in respect of the financial information for the three years ended 31 December 2016 included in the Financial Information Table. Accordingly they do not express an opinion on the financial information included in the Financial Information Table prepared for the purposes of this Circular. PwC's disclaimer of opinion on Le Vet is set out on page 55 of this Document.

The disclaimer in PwC's opinion states that Le Vet did not implement and maintain appropriate or sufficient internal controls to ensure the completeness of the underlying accounting records, to a standard of reliability that is necessary for a Reporting Accountant to provide an unmodified audit opinion. Although PwC have been able to verify characteristics such as the accuracy of the information that has been included in the company's accounting records, through work in accordance with International Standards on Auditing, there remains the potential for transactions not to have been included in the company's accounting records. As such PwC is not able to verify the completeness of information included. As a result of the nature of the modification, which notes that there is potential for unknown balances not to have been entered into the company's accounting records, it is not practicable for PwC to quantify the possible effects of the modification.

The Directors believe that the disclaimer of opinion is significant, as Shareholders will be basing their decision to approve the Acquisition on financial information for Le Vet that may not be complete. However, for the reasons set out below, the Directors believe that, in spite of the disclaimer of opinion, the Acquisition of AST Farma and Le Vet, which are interconditional i.e. they will either both happen or none will happen, is in the best interests of Shareholders as a whole. Their recommendation is set out in paragraph 16 of this Part I.

Le Vet is a high-growth, profitable and cash generative business which Dechra has been working with since 2012 following its acquisition of Eurovet. Dechra is a significant partner to Le Vet, representing approximately 20 per cent. of Le Vet's revenues and is well known to Dechra management, operating in the same markets. Despite the fact the Le Vet financial information may not be complete, the Directors believe the financial position is supported. In addition, under the pharmaceutical regulatory environment (cGMP – current good manufacturing practice) that Le Vet (and AST Farma and Dechra) are required to operate, the receipt of product from a third party manufacturer and the release of product at the point of shipment must be independently validated by a registered Qualified Person. This provides an additional controls check on the completeness and accuracy of all inbound and outbound transactions undertaken by the business independently of the operational and financial processes, on which the Directors can place reliance.

The Directors consider the Acquisition as one transaction split across two companies. Le Vet is closely associated with AST Farma, with significant cross shareholdings, significant product overlap and share the same auditors. While AST Farma received a clean audit opinion, this can provide no assurances over the position and performance of Le Vet. Dechra has conducted extensive financial, commercial, tax and legal due diligence on both businesses, which has confirmed both the Directors' expectations and the representations made by the Sellers. As part of this the Directors have reconciled Dechra's purchases from Le Vet with Le Vet's sales to Dechra, which represents 20 per cent. of Le Vet's total revenue. Further, Le Vet's reported revenue numbers have been validated with independently available market share data. Dechra will also seek appropriate protections for Shareholders through the Share Purchase Agreement.

While the Directors place importance on the historical financial information, a significant component to the value the Directors have placed on both AST Farma and Le Vet is the pipeline of products in development for which there is no account in the three year track record. Finally, the Directors are aware of their ongoing obligations as directors of a premium listed company and as part of the transaction have prepared a detailed integration plan to ensure it can continue to meet these obligations following completion of the Transaction, which incorporates plans to resolve the issues highlighted in the Reporting Accountant's disclaimer of opinion.

6. Information on Dechra

Dechra was formed approximately 20 years ago and is listed on the Premium Segment of the London Stock Exchange's Main Market. The Group is an international developer, manufacturer and supplier of products to service the veterinary profession worldwide. Dechra's products can be largely split into four main categories (percentage of sales for the year ended 30 June 2017):

- **Companion Animal Products (62.3 per cent.)** – products focused on dogs and cats. Key therapeutic sectors include endocrinology, dermatology, analgesia and anaesthesia, cardiology, ophthalmology and nutrition. Demand for these products is principally driven by pet owners wanting to provide better care for their animals. Dechra has developed a strong position in providing specialist and clinically necessary novel products. The Group also supply a range of products which complement these products in key therapeutic sectors where Dechra is seen as the company of choice by many veterinarians.
- **Food producing Animal Products (13.2 per cent.)** – Dechra entered the FAP sector through the acquisition of Eurovet in 2012 but is underweight relative to the market and the Group's competitors and it is an increasing area of focus, especially in the Group's plans for geographical expansion. Dechra's products are entirely prescription only medicines that are prescribed by veterinarians who work in either specialist veterinary practices or professional farming units. Key therapeutic sectors include water soluble powders, poultry vaccines, locomotion (lameness) and pain management for poultry, pigs and an increasing presence in cattle. The key driver for growth in this sector is an increase in the global demand for high quality animal protein and dairy products.
- **Equine (7.6 per cent.)** – this is a sector in which few animal health companies specialise due to the relatively small number of horses in the world. Equine veterinarians are specialised in the species and operate out of either mixed practices or, increasingly, specialist equine centres. Key therapeutic sectors include lameness and pain management. Although there is a big overlap, the market can be divided roughly into high performance sports horses and leisure horses and ponies. High value sports horses will be treated at almost any cost. Dechra has developed a strong position in lameness and pain management with unique products that have superior efficacy compared to historic treatments.
- **Nutrition (7.7 per cent.)** – Dechra's 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. The ability of Dechra to offer its wide range of products, branded *Specific®*, is necessary to remain competitive in this sector. The veterinary recommendation is respected by pet owners which allows them to take a small but significant part of the diet market. Dechra's focus is predominantly therapeutic diets which are not available for self-selection through supermarkets and require advice from the veterinarian.

Dechra reports through two operating segments:

- **EU Pharmaceuticals Segment** – incorporates the European veterinary products business, the international businesses (excluding North America) which includes Australia and New Zealand, and Dechra's manufacturing business, which provides contract manufacturing services to third parties (though strategically this is being reduced over the next five years) in addition to supporting its own products.
- **North American Pharmaceuticals Segment** – incorporates the Group's activities in the US, Canada and Mexico.

7. Financial effects of the Acquisition

Under the terms of the Acquisition, Dechra is acquiring AST Farma and Le Vet for an aggregate consideration of €340.0 million (£298.0 million) on a debt-free cash-free basis and subject to adjustment for working capital at Completion. The consideration for the Acquisition is being satisfied €85.0 million through issuing the Consideration Shares, with the balance of €255.0 million (£223.7 million) to be satisfied in cash. The cash element is being part funded through the net proceeds of the Placing of approximately £100.0 million (€114.0 million), with the balance of approximately €141.0 million (£123.7 million) being funded through new debt facilities.

Dechra, as part of the Share Purchase Agreement, has agreed to continue to operate the Oudewater site, which is owned by companies controlled by Sebastiaan and Alexander Tesink, and maintain operations there for at least three years following Completion. In addition, Dechra has also agreed to maintain certain levels of manufacturing for five years at certain existing sites in which STAK AST Beheer B.V. and STAK A.C.W Pharma B.V. hold minority interests. Whilst the employees of AST Farma and Le Vet will join Dechra following Completion, Sebastiaan and Alexander Tesink will not join the Enlarged Group, but will remain with the business for a transitionary period under consultancy agreements.

On a *pro forma* basis and assuming that the Acquisition and the Placing had each been completed on 30 June 2017, the Enlarged Group would have had net assets of £477.6 million at that date (based on the net assets of the Dechra Group as at 30 June 2017 and the AST Farma Group and the Le Vet Group as at 31 December 2016). A pro forma statement of net assets as at 30 June 2017 illustrating the effects of the Acquisition and the Placing as if they occurred on 30 June 2017 is set out in Part V (*Unaudited Pro Forma Financial Information*) of this document. This information is unaudited and has been prepared for illustrative purposes only.

On a *pro forma* basis, and assuming the Acquisition had completed on 1 July 2016, Dechra's profit before tax for the year ended 30 June 2017 would have been higher by the adjusted profit before tax of AST Farma and Le Vet, less the costs associated with the Acquisition of £3.5 million and the share of profit of investments accounted for using the equity method of £0.2 million relating to interests in third party companies not part of the Acquisition. The adjusted profit before tax for AST Farma is £10.2 million and the adjusted profit before tax for Le Vet is £7.3 million. Adjusted profit before tax is after adding back costs paid by AST Farma and Le Vet to AST Farma Beheer B.V. in relation to certain product registrations held by AST Farma Beheer B.V. which, as part of the Acquisition, will no longer be paid following Completion as these products are being transferred to AST Farma and Le Vet.

Should the Acquisition be approved, AST Farma and Le Vet will be reported within Dechra's European Pharmaceuticals Segment.

Earnings per share and ROCE vs WACC[1]

The Directors expect the impact of the Acquisition and the Placing to be accretive to underlying earnings per share in the year-ending 30 June 2018, before transaction costs and one-off integration costs and to be materially accretive to underlying earnings per share in the year-ending 30 June 2019. Dechra expects to report one off transaction costs associated with the Acquisition of £3.5 million for the year ended 31 July 2018.

[1] The contents of this paragraph does not constitute a profit forecast nor should it be interpreted to mean that the earnings per share of the Enlarged Group for the first full year after the transaction will increase.

The Directors expect the Acquisition to generate an underlying return on capital employed in excess of Dechra's weighted average cost of capital in the year-ending 30 June 2019.

The Directors expect the leverage ratio to be approximately 1.95 times net debt to EBITDA on Completion, falling to approximately 1.7 times at 30 June 2018.

Dividend policy

Following Completion, the Board expect to continue its progressive dividend policy recognising investment opportunities as they arise.

Debt Financing

Dechra has entered into the New Facility Agreement to, *inter alia*, part fund the Acquisition. Details in respect of the New Facility Agreement are set out in paragraph 2 of Part III (*Summary of the Acquisition and New Facility Agreement*) of this document.

Details in respect of the Existing Facility Agreement are set out in paragraph 7.1.3 of Part VI (*Additional Information*) of this document.

8. Trading information

Dechra

The following wording is extracted without material adjustment from the unaudited trading update covering the half-year reporting period (Period) from 1 July 2017 to 31 December 2017:

"Highlights

- Trading in the Period was strong and in line with management expectations.
- Reported Group revenue for the Period increased by c.10.5 per cent. at constant exchange rate (CER) (c.11.5 per cent. at actual exchange rate (AER)).
- European Pharmaceuticals revenue growth was c.5.5 per cent. at CER (AER c.8.5 per cent.).
- North America Pharmaceuticals revenue growth was c.20.0 per cent. at CER (AER c.17.5 per cent.).
- Small bolt on acquisition of RxVet Limited, New Zealand, was completed.

Operational Review

European Pharmaceuticals

In the Period, our European Pharmaceuticals Segment reported revenue increased by c.5.5 per cent. at CER (c.8.5 per cent. at AER). Excluding third party contract manufacturing, and treating Apex on a like for like basis (Apex was acquired in October 2016), revenues increased by c.4.0 per cent. at CER (c.7.0 per cent. at AER).

North American Pharmaceuticals

In the Period, our North American Segment reported revenue increased by c.20.0 per cent. at CER (c.17.5 per cent. at AER).

Pipeline Delivery

New product registrations were achieved in the Period. In European Pharmaceuticals, this included *Avishield*® IB H120, our second EU registered poultry vaccine. A number of minor registrations were achieved in our International division following its formation in July 2017.

In North America we have now launched all the dosage sizes of Amoxi-Clav tablets in the US, and *Vetoryl*® and *Osphos*® in Mexico.

Acquisition

In December 2017 we completed the acquisition of RxVet Limited, a small CAP business in New Zealand. RxVet have been Dechra's distributor since 2010, with revenue in the year to March 2017 of NZ$1.4 million; sales of Dechra products account for approximately half of this. The former owner managers will remain with the business and help to increase market share and build Dechra's presence in the region.

US tax

Following the passing into law of the Tax Cuts and Jobs Act (the Act) in USA, the Group is in the process of reviewing and quantifying the effect of the Act on Dechra. Overall, an initial provisional assessment indicates that the effect is expected to be modestly favourable on an ongoing underlying basis. A material one-off non-cash non-underlying credit will arise due to the revaluation of Deferred Tax balances. Further details will be provided with the announcement of the Interim Results.

Notice of results

Dechra will announce its Interim Results for the Period on 26 February 2018.

Notes:

(1) Foreign Exchange Rates:

FY2018 H1 Average: EUR 1.1205: GBP 1.0; USD 1.3176: GBP 1.0

FY2018 H1 Closing: EUR 1.1271: GBP 1.0; USD 1.3517: GBP 1.0

FY2017 H1 Average: EUR 1.1698: GBP 1.0; USD 1.2886: GBP 1.0

FY2017 H1 Closing: EUR 1.1680: GBP 1.0; USD 1.2311: GBP 1.0

FY2017 Average: EUR 1.1681: GBP 1.0; USD 1.2735: GBP 1.0"

Since the date of this announcement Dechra continues to trade in line with the Directors' expectations.

AST Farma

During the financial year ended 31 December 2017, AST Farma is expected to have delivered continued revenue growth, mainly driven by new product launches to its product portfolio. Adjusted operating margins are expected to be in line with the Directors' expectations.

Le Vet

During the financial year ended 31 December 2017, Le Vet is expected to have delivered strong revenue growth, driven by a combination of continued market penetration and new product launches. Adjusted operating margins are expected to be in line with the Directors' expectations.

9. Principal terms of the Share Purchase Agreement

The Share Purchase Agreement is conditional, *inter alia*, upon the approval of the Acquisition Resolution by the Shareholders.

The number of Consideration Shares to be issued has been determined by the €85.0 million payable in Ordinary Shares, being 25 per cent. of the Consideration, divided by the Average Closing Price.

The Consideration Shares, in aggregate, represent approximately 3.93 per cent. of the Company's existing issued share capital (as at 25 January 2017, being the latest practicable date prior to publication of this document) and will represent approximately 3.59 per cent. of the Company's enlarged issued share capital following both the Placing and the Acquisition. The Sellers will be bound by lock-in provisions in respect of the Consideration Shares which prohibits them for a period of 24 months from disposing of any interest in the Consideration Shares, subject to customary exemptions.

The Consideration Shares will be credited as fully paid and will rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid on the existing Ordinary Shares. The Consideration Shares may be held in certificated or uncertificated form.

Application will be made to the UK Listing Authority for the Consideration Shares to be admitted to the Premium Segment of the Official List and to the London Stock Exchange for the Consideration Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and that dealings in the Consideration Shares will commence on the London Stock Exchange at 8.00 a.m. on 13 February 2018.

Further details of the Share Purchase Agreement are set out in Part III (*Summary of the Acquisition and New Facility Agreement*) of this document.

10. Background to and reasons for the Placing

In conjunction with its announcement of the Acquisition, Dechra also announced a conditional placing with institutional investors of 5,121,952 new Ordinary Shares, representing approximately 5.48 per cent. of Dechra's existing issued share capital (as at 25 January 2018, being the latest practicable date prior to publication of this document). The Placing is conditional on Admission of the Placing Shares, which is expected to become effective on 30 January 2018, as more particularly detailed below.

Pursuant to the Placing, Dechra has conditionally raised gross proceeds of approximately £105.0 million (approximately £100.0 million net). The Acquisition will be part funded by utilising the net proceeds of the Placing, with the remaining cash Consideration being financed through a drawdown under the New Facility Agreement.

The Directors take a prudent view of balance sheet leverage and typically target maximum Net Debt to underlying EBITDA of 2 times, though under the right circumstances are prepared to allow leverage to increase to a level above this.

The Directors considered it was therefore appropriate to issue equity to fund the proposed Acquisition in part and to raise equity funding at the time of the announcement of the Acquisition in order to provide certainty of that equity funding. Further, the Group are exploring a number of other acquisitions and the Board felt it desirable to maintain financial flexibility in the light of these further opportunities.

In the event that the Acquisition does not complete, the Directors would consider, in light of circumstances at the time, the appropriate use of the funds raised, including the extent to which they should be retained for general purposes or used in relation to other capital investments or acquisition opportunities as well as the appropriate extent to which the funds would be returned to Shareholders.

The Company has entered into the Placing Agreement with Investec pursuant to which, *inter alia*, Investec has procured Placees for the Placing Shares at the Placing Price, to raise net proceeds of approximately £100.0 million. The Placing has been fully underwritten by Investec. The entire net proceeds of £100.0 million from the Placing will be used to finance in part the cash element of the Consideration of £223.7 million (and total associated Acquisition expenses of £3.5 million). The Placing Shares represent approximately 5.48 per cent. of the Company's existing issued share capital (as at 25 January 2018, being the latest practicable date prior to publication of this document) and will represent approximately 5.01 per cent. of the Company's enlarged issued share capital following both the Placing and the Acquisition.

The Placing Shares will be credited as fully paid and will rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid on the existing Ordinary Shares. The Placing Shares may be held in certificated or uncertificated form.

Application has been made to the UK Listing Authority for the Placing Shares to be admitted to the Premium Listing Segment of the Official List and to the London Stock Exchange for the Placing Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and that dealings in the Placing Shares will commence on the London Stock Exchange at 8.00 a.m. on 30 January 2018.

The Company believes that carrying out the Placing on a non pre-emptive basis is the most suitable option given the requirement to raise funds for the Acquisition and to provide certainty to the Sellers. Utilising the proceeds of the Placing to fund the Acquisition in part allows the Company to retain financial flexibility within its existing cash resources which, together with its new debt facilities, remain available for investment in organic or acquisitive growth opportunities for the Enlarged Group.

The Placing is not conditional on the Acquisition and nor is it subject to Shareholder approval and is being made under existing authorities to allot the new Ordinary Shares on a non pre-emptive basis. In the event that the Acquisition is not approved by Shareholders, the Placing will still complete on Admission of the Placing Shares.

11. Renewal of Shareholder authorities

The issuance of the New Dechra Shares will utilise a significant amount of the Company's annual authority to allot up to one-third of the Company's then issued Ordinary Share capital (outside of a fully pre-emptive rights issue) passed at the AGM of the Company on 20 October 2017. As a result, the Board intends that at the General Meeting an ordinary resolution (Resolution 2) is proposed to renew this standard allotment authority (based on the enlarged share capital of the Company following completion of the Acquisition and the Placing) under section 551 of the 2006 Act in order that the Board is best placed to react to future demands and requirements which it may not otherwise be in a position to do if it was to wait until the next AGM (which is not expected to take place until October 2018) when such authority is ordinarily renewed. The passing of Resolution 2 is conditional on the passing of the Acquisition Resolution (Resolution 1). Resolution 2 is divided in two parts. Paragraph 2.1 will grant authority to the Directors to allot up to a maximum nominal amount of £681,894 (representing approximately two-thirds of the expected enlarged share capital of the Company following completion of the Acquisition and the Placing). Paragraph 2.2 will grant authority to the Directors to allot up to a further maximum nominal amount of £340,947 (representing approximately one-third of the expected enlarged share capital of the Company following completion of the Acquisition and the Placing) provided that this is pursuant to a fully pre-emptive rights issue. The amount in paragraph 2.2 will be reduced by the nominal amount of ordinary shares already issued or assigned under the authority conferred by paragraph 2.1, so that the Company will not have the power to issue more than two-thirds of the expected enlarged share capital of the Company following completion of the Acquisition and the Placing.

Similarly, the Placing will utilise a significant amount of the Company's annual authority to allot up to 10 per cent. of the Company's then issued Ordinary Share capital outside of the pre-emption regime. Again, the Board intends that at the General Meeting two special resolutions (Resolutions 3 and 4) be proposed to renew this standard pre-emption disapplication authority (based on the enlarged share capital of the Company following completion of the Acquisition and the Placing) under sections 570 and 573 of the 2006 Act in order that the Board is best placed to react to future demands and requirements which it may not otherwise be in a position to do if it was to wait until the next AGM (which is not expected to take place until October 2018) when such authority is ordinarily renewed. The passing of Resolution 3 and 4 is conditional on the passing of the Acquisition Resolution (Resolution 1) and Resolution 2 above. If passed, Resolutions 3 and 4 will permit the Directors to allot equity securities (i) up to a maximum nominal amount of £51,142 (representing approximately 5 per cent. of the expected enlarged share capital of the Company following completion of the Acquisition and the Placing) outside of the pre-emption regime; and (ii) up to a further maximum nominal amount of £51,142 (representing approximately 5 per cent. of the expected enlarged share capital of the Company following completion of the Acquisition and the Placing) but used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this document.

The Directors have no present intention of exercising the powers proposed to be granted by Resolutions 2 to 4 (except in relation to the Company's share incentive schemes) and the powers, if granted, will expire at the conclusion of the next AGM of the Company or, if earlier, on 12 May 2019. The Company does not hold any Ordinary Shares in treasury.

12. Risk factors

Shareholders should consider fully and carefully the risk factors associated with the Acquisition, those risk factors for the Group that are impacted by the Acquisition and the new risk factors for the Enlarged Group arising from the Acquisition. Your attention is drawn to the risk factors set out in Part II (*Risk Factors*) of this document.

13. General Meeting

In accordance with Listing Rule 10.5, completion of the Acquisition is conditional upon, *inter alia*, the approval by Shareholders by the passing of the Acquisition Resolution at the General Meeting. The Notice of General Meeting of the Company to be held at the office of Dechra at 6 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich CW9 7UA at 9.30 a.m. on 12 February 2018 is set out at the end of this Circular, at which the Acquisition Resolution (together with the renewal authorities referred to in paragraph 11 above in this Part I (*Letter from the Chairman of Dechra Pharmaceuticals PLC*) will be proposed.

14. Action to be taken

If you are a Shareholder, accompanying this document is a Form of Proxy for use at the General Meeting. Whether or not you intend to be present at the General Meeting, you are requested to complete the Form of Proxy in accordance with the instructions printed on it and return it as soon as possible and in any case so as to be received by Equiniti of Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, by no later than 9.30 a.m. on 8 February 2018.

If you hold your Ordinary Shares in CREST, you may appoint a proxy by completing and transmitting a CREST proxy instruction form so that it is received by Equiniti (under CREST participant RA19) by no later than 9.30 a.m. on 8 February 2018. The time of receipt will be taken to be the time from which Equiniti is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

The completion and return of a Form of Proxy or completion and transmission of a CREST proxy instruction will not prevent Shareholders from attending and voting at the meeting should they so wish.

15. Further Information

Your attention is drawn to the further information contained in Parts II to VI of this document and, in particular, the risk factors in Part II (*Risk Factors*).

You are advised to read the whole of this document and not to rely solely on the information contained within this letter.

16. Recommendation

The Board considers that the Acquisition is in the best interests of Dechra and its Shareholders as a whole and, accordingly, the Board unanimously recommends that Shareholders vote in favour of the Acquisition Resolution at the General Meeting, as the Directors intend to do in respect of their own beneficial holdings of 878,718 Ordinary Shares representing, in aggregate, 0.94 per cent. of the ordinary share capital of Dechra in issue as at 25 January 2018 (being the latest practicable date prior to publication of this document).

Yours faithfully,

Tony Rice
(Non-Executive Chairman)

PART II

RISK FACTORS

Prior to making any decision to vote in favour of the proposed Resolutions at the General Meeting, Shareholders should carefully consider, together with all other information contained in this document, the specific factors and risks described below. All material risks relating to the Acquisition of which the Directors are aware are set out below, although these risks should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. There may be other risks of which the Directors are not aware or which they believe to be immaterial which may have an adverse effect on the business, financial condition, results or future prospects of the Enlarged Group following Completion. Because Dechra's, AST Farma's and Le Vet's respective operations are of a similar nature in many respects, the risks set out below (other than those relating to the Acquisition) will not be new risks for Dechra, which arise only on Completion. Rather, the potential impact of existing risk factors will be materially increased (in absolute terms) from Completion, as a result of the enhanced scale of the operations of the Enlarged Group.

The information given is as of the date of this document and, except as required by the FCA, the LSE, the Listing Rules, the Disclosure Guidance and Transparency Rules or any other law or regulation, will not be updated.

1. RISKS RELATING TO THE ACQUISITION

Satisfaction of the conditions precedent to Completion

The implementation of the Acquisition is subject to the satisfaction (or waiver, if applicable) of the contractual conditions precedent contained in the Share Purchase Agreement, including, amongst others:

- approval of the Acquisition Resolution at the General Meeting;
- no material adverse change having occurred in the business, assets, financial or trading position profits or prospects of AST Farma and/or Le Vet; and
- no material warranty breach having been discovered prior to Completion.

There is no guarantee that these (or any of the other) conditions will be satisfied (or waived, if applicable). A failure to satisfy the conditions may result in the Acquisition not completing.

Warranties and indemnities in the Share Purchase Agreement

The Share Purchase Agreement contains certain warranties and indemnities given in favour of the Company, breach of which could cause the Enlarged Group to incur liabilities and obligations in the event that it seeks to make a claim for such breach. As is usual in such a transaction, the warranties and indemnities in the Share Purchase Agreement are subject to specific negotiated limitations also contained in the Share Purchase Agreement. As a result of such limitations, the right of the Enlarged Group to recover damages or compensation in the event of contingent liabilities covered by such warranties or indemnities crystallising or an undisclosed liability of either AST Farma or Le Vet coming to light after Completion, may not be sufficient to cover the full extent of the liability in question. Further details of the Share Purchase Agreement are set out in Part III (*Summary of the Acquisition and New Facility Agreement*) of this document.

Reliance on key individuals

AST Farma and Le Vet have a relatively small workforce and loss of, or failure to retain key individuals could have a significant impact on their respective businesses.

Counterparty risk

AST Farma and Le Vet engage the services of a contract research organisation in relation to their product development requirements. If that entity were to fail to meet its contractual obligations this could result in a delay in, or the failure of, new products to reach the market. A material part of the value Dechra has put on AST Farma and Le Vet is its product pipeline and failure to achieve future approvals or a delay in achieving them would deliver a lower overall return from the Acquisition.

Lack of a clean audit opinion in relation to Le Vet

As described more fully in paragraph 5 of Part I (*Letter from the Chairman*), whilst AST Farma received a clean audit opinion from both its auditors and PwC in respect of its financial years ended 31 December 2014, 2015 and 2016, neither Le Vet's auditors nor PwC could provide a clean audit opinion for Le Vet and PwC for the purposes of this document has given a disclaimer of opinion in respect of these years, which states that PwC have been unable to perform sufficient audit procedures to obtain reasonable assurance as to the completeness of turnover and related financial items. The lack of completeness of the financial information is due to (i) a lack of segregation of duties within Le Vet's finance function, which was undertaken by one employee; and (ii) the absence of a formal inventory count coupled with inventory valuation issues in 2014, meaning it has not been possible to reconcile between opening inventory balances, purchases, sales and closing inventory balance. Therefore there is a potential for unknown balances not to have been entered into the company's accounting records. Although Dechra will be implementing enhanced financial controls and reporting procedures following Completion, there is a risk that Shareholders will be basing any decision to approve the Acquisition on financial information for Le Vet that may not be complete.

2. RISKS RELATING TO THE ENLARGED GROUP

Integration risk

Whilst Dechra has past experience of integrating acquisitions, and the integration of the AST Farma and Le Vet businesses is expected to be relatively straightforward, the Enlarged Group's success may in part be dependent upon Dechra's ability to integrate both AST Farma and Le Vet, and any other businesses that it may acquire in the future, without disruption to the existing business.

Achieving the anticipated benefits of the Acquisition will depend in part upon whether AST Farma and Le Vet successfully integrate into the Dechra business in an effective and efficient manner. Dechra may not be able to accomplish this integration process successfully, either in full or in part, which could have a material adverse effect on the Enlarged Group's results of operations, financial condition and/or prospects. The integration of businesses is complex and time-consuming.

The challenges of integrating AST Farma and Le Vet may also be exacerbated by differences between Dechra's and AST Farma's and Le Vet's operational and business culture and the need to implement cost cutting measures.

In addition, there will be integration and transaction costs (such as fees paid to legal, financial, accounting and other advisers and other fees paid in connection with the Acquisition), including costs associated with combining the operations of AST Farma and Le Vet with Dechra and achieving the synergies Dechra expects to obtain, and such costs may be significant.

An inability to realise the full extent of the anticipated benefits of the Acquisition, including estimated cost and revenue synergies, as well as any delays encountered in the integration process and realising such benefits, could have an adverse effect upon the revenues, level of expenses and operating results of the Enlarged Group, which may materially adversely affect the value of the Ordinary Shares after Completion.

Cost savings and synergies achieved from the Acquisition may differ from those anticipated

Dechra believes that the Consideration is justified in part by the business growth opportunities, margin benefits, cost savings and other synergies it expects to achieve by combining its operations with AST Farma and Le Vet. However, these expected business growth opportunities, margin benefits, cost savings and other synergies may not develop and other assumptions upon which Dechra determined to pursue the Acquisition may prove to be incorrect. The statements concerning potential synergies contained in this document relate to future actions and circumstances which, by their nature, involve issues, uncertainties and contingencies. As a result, the synergies may not be achieved, or those achieved could be materially different from those estimated.

Dechra may also face challenges in the following areas:

- redeploying resources in different areas of operations to improve efficiency;
- minimising the diversion of management attention from ongoing business concerns; and

- addressing possible differences between Dechra's business culture, processes, controls, procedures and systems, and those of AST Farma and Le Vet.

Under these circumstances, the business growth opportunities, margin benefits, cost savings and other synergies anticipated by Dechra to result from the Acquisition may not be achieved as expected, or at all, or may be delayed. To the extent that Dechra incurs higher integration costs or achieves lower margin benefits or fewer cost savings than expected, both its and the Enlarged Group's results of operations, financial condition or prospects could be materially adversely affected and the price of the Ordinary Shares may suffer.

Operating and financial restrictions as a result of increased debt facilities

As a result of the Acquisition, the Enlarged Group will have an increased amount of debt and debt service obligations. This debt could have important adverse consequences insofar as it:

- requires the Group to dedicate a significant proportion of its cash flows from operations to fund payments in respect of the debt, thereby reducing the flexibility of the Group to utilise its cash to grow the business;
- increases the Group's vulnerability to adverse general economic industry conditions;
- may limit the Group's flexibility in planning for, or reacting to, changes in its business or the industry in which it operates;
- may limit the Group's ability to raise additional debt or equity in the future; and
- could restrict the Group from making strategic acquisitions or exploiting business opportunities.

A third party may claim that the products acquired by the Enlarged Group and/or the Enlarged Group's customers are infringing its patents and trademarks

There are a large number of companies seeking to develop novel delivery devices for, and formulations of, pharmaceutical products using a range of different drug delivery technologies. There are a significant number of filed and granted patents and other intellectual property that aim to protect these technologies. A third party may claim that the Enlarged Group or its customers are using inventions covered by the third party's patents and may go to court to stop the Enlarged Group or its customers from engaging in normal operations and activities, including developing and marketing product. There is a risk that a court would decide that the Enlarged Group or its customers are infringing third party patents and would order the Enlarged Group or its customers to stop those activities and/or require the Enlarged Group or its customers to pay significant amounts in damages.

The commercial success of the Enlarged Group's products may also depend on third parties not enforcing their trademark rights. If such third party is successful in enforcing its trademark, the Enlarged Group, or its licencees, may need to abstain from using a mark, obtain an alternative mark or reach commercial terms on the in-licensing of such third parties' intellectual property rights.

An unfavourable decision could require the Enlarged Group or its customers to redesign or rebrand the Enlarged Group's or its customers' products, or require the Enlarged Group or its customers to licence a third party's intellectual property. There is no guarantee that the Enlarged Group or its customers could enter such licence arrangements on favourable terms, or at all, and if a licence or redesign is not available the Enlarged Group or its customers could be forced to abandon a product entirely.

Increasing influence of corporates and buying groups in the veterinarian sector

The veterinarian sector is in a transitional stage with a number of local independent veterinarians being acquired and consolidated by blue chip corporate entities. This is particularly evident in the UK and Dutch veterinarian markets. Whilst, in many ways, greater exposure to this consolidation presents opportunities for growth (not least as the corporate owners frequently provide wider product mandates to their underlying veterinarians), corporate customers also govern greater rebates resulting in reduced sales prices for the Enlarged Group. Similarly, in the French market the Group is experiencing an increase in buying groups which can also collectively influence sales prices without the benefit of the increased mandates.

Risk of supply chain failure

Neither AST Farma nor Le Vet manufactures any of its own product range hence the Enlarged Group will be reliant on a number of key third party suppliers across the UK and Europe. If any such suppliers fails to provide products on time, and where an alternative source of supply is not readily available, this could have a material adverse effect on the Enlarged Group's business.

Change of control provisions

AST Farma and Le Vet have a number of arrangements with suppliers, service providers and customers in relation to which the counterparties to those arrangements may, following the change of control on completion of the Acquisition, exercise any rights that they may have under any such arrangements to renegotiate the terms or terminate such arrangements. Although the Directors believe that the Enlarged Group will be considered more attractive as a larger supplier of a broader range of products and services to AST Farma's and Le Vet's respective and common customers and, notwithstanding that a number of those customer agreements are of a long term nature reflecting customer commitment to these relationships, there can be no guarantee that some customers will not seek to alter the terms on which they do business. Accordingly, the performance of the Enlarged Group could differ materially from that currently anticipated should such risk materialise and, in particular, the counterparties terminate their arrangements with the Enlarged Group.

Shareholders will own a smaller percentage of the Enlarged Group than they currently own in Dechra

After Completion, the existing shares in issue will represent a smaller percentage of the Enlarged Group than currently. Based on the number of Ordinary Shares in issue as at 25 January 2018 (being the latest practicable date prior to publication of this document), following Completion (taking into account both the Consideration Shares and the Placing Shares to be issued as part of the Acquisition), existing shares will represent approximately 91.4 per cent. of the Enlarged Group.

Future results of Dechra may differ materially from the unaudited pro forma financial information of the Enlarged Group presented in this document

The future results of Dechra following Completion may be materially different from those shown in the pro forma financial information contained in this document, which show only a combination of Dechra's, AST Farma's and Le Vet's standalone historical results after Completion, subject to the matters noted therein. Dechra has estimated that it will record approximately £3.5 million in transaction expenses. The final amount of any charges relating to acquisition accounting adjustments that Dechra may be required to record will not be known until after Completion. These and other expenses and charges may be significantly higher or lower than estimated.

Impairment of goodwill and/or other intangible assets of the Enlarged Group

In connection with the accounting for the Acquisition, the Enlarged Group is expected to record an amount of goodwill and other intangible assets. Under IFRS, the Enlarged Group will need to assess, at least annually and potentially more frequently, whether the value of goodwill and other intangible assets has been impaired.

Any reduction or impairment of the value of goodwill or other intangible assets will result in a charge against earnings, which could materially adversely affect the Enlarged Group's results of operations and shareholders' equity in future periods.

3. RISKS RELATING TO THE ORDINARY SHARES

The market price of the Ordinary Shares may decline as a result of the Merger

The market price of the Ordinary Shares may decline as a result of the Acquisition if, among other reasons:

- Completion is delayed or does not occur on the terms, and subject to the conditions, envisaged in the Share Purchase Agreement;
- the integration of AST Farma's and Le Vet's businesses is delayed or unsuccessful;
- Dechra does not achieve the expected benefits of the Acquisition as rapidly or to the extent it anticipates or to the extent anticipated by analysts and/or investors;

- the effect of the Acquisition on the Enlarged Group's financial results is not consistent with Dechra's expectations or the expectations of analysts and/or investors; or
- Shareholders (including holders of Placing Shares) sell a significant number of Ordinary Shares after Completion.

In connection with the Acquisition and Placing Dechra expects that it will issue 8,792,577 New Dechra Shares (including both the Consideration Shares and Placing Shares), which will result in significant dilution of existing Ordinary Shares. This risk of dilution could result in downward pressure on the Ordinary Shares and encourage third parties to engage in short sales of Ordinary Shares. Accordingly, by increasing the number of shares offered for sale, material amounts of short selling and other activity could further contribute to depressing the market price of Ordinary Shares.

In addition, these factors could also make it more difficult for the Enlarged Group to raise funds through future offerings of Ordinary Shares. The issuance of the New Ordinary Shares and the sale of additional Ordinary Shares that may become eligible for sale in the public market from time to time upon exercise of options or the vesting of restricted securities could depress the market price of the Ordinary Shares. Moreover, the increase in the number of Ordinary Shares, or an increase in the number of Ordinary Shares outstanding following a future issuance, sale or transfer of Ordinary Shares by Dechra or the possibility of such an issue, sale or transfer may lead to sales of such shares or the perception that such sales may occur, either of which may adversely affect the market for, and the market price of, Ordinary Shares.

4. EXISTING RISKS TO DECHRA POTENTIALLY IMPACTED BY THE ACQUISITION

Regulatory environment

Dechra, AST Farma and Le Vet (and, following Completion, the Enlarged Group) operate in a sector which is subject to regulation from a number of regulatory authorities in different countries, which can range from authorisation of a new product or service, the manufacturing processes for new and existing products or the pricing of new and existing products or services. The international veterinary pharmaceutical services industry is highly regulated by numerous governmental authorities in the UK, Europe and the US, and by regulatory agencies in other countries where Dechra and the Enlarged Group intends to test or market its current product offering or products it may develop.

National and international regulatory authorities administer a wide range of laws and regulations governing the testing, approval, manufacturing, labelling, marketing and pricing of veterinary pharmaceutical products. Such authorities also review the quality, safety and effectiveness of veterinary pharmaceutical services and the distribution of veterinary pharmaceutical products. These regulatory requirements are a major factor in determining whether a substance can be developed into a marketable product, whether that product can be licenced for sale in a particular territory and the amount of time and expense associated with such development. Government regulation imposes significant costs and restrictions on the development of pharmaceutical products for animal use, including those that Dechra and the Enlarged Group is or will be developing and testing.

The development, clinical evaluation, manufacture and marketing of Dechra's and the Enlarged Group's products and services, and ongoing research and development activities, are subject to regulation by governments and regulatory agencies in all territories within which Dechra and the Enlarged Group intends to manufacture and market its products or offer its services (whether itself or through a partner or licensee). No assurance can be given that any of Dechra's and the Enlarged Group's products or services under development will successfully complete any necessary accreditation or regulatory review process or that any required regulatory approvals to manufacture and market these products and services will ultimately be obtained or maintained in all or any territories.

Product liability and related insurance

Dechra and the Enlarged Group operate in a sector which exposes them to potential product liability risk which are inherent in its business activities. There can be no assurance that the necessary insurance cover that the Group currently has will continue to be available to Dechra and the Enlarged Group in the future and, in particular, at an acceptable cost or that, in the event of any claim, the level of insurance carried by Dechra and the Enlarged Group now or in the future will be adequate or that a product liability or other claim would not materially and adversely affect the Group's or the Enlarged Group's business.

Disruption to Enlarged Group's premises or infrastructure

Failure of laboratory, environmentally controlled storage or other infrastructure, could adversely affect quality and timeliness of service delivery. The Group has implemented a range of measures to mitigate the risk of such failures or business interruption arising from such failures. These include, but are not limited to, replication of laboratory facilities across multiple sites, dual-site backup hosting arrangements for business critical IT servers, off-site hosting arrangements for website and e-commerce applications, extensive firewall and encryption hardware and software, installation of backup power supply, duplicated inventory of biological product materials stored in a secure second facility, telemetry and alarm systems for critical equipment, environmentally controlled premises and appropriate service and maintenance arrangements. The Enlarged Group could, however, experience an interruption in the future and this could have a material adverse effect on the Enlarged Group's business, financial condition and results of operations.

Exchange rate fluctuation

A significant proportion of the Enlarged Group's revenue is derived from overseas, especially from Europe and the US. The Enlarged Group also has exposure to exchange rate risk through purchases and cash balances held and translational foreign exchange risk with respect to the euro net assets of foreign subsidiaries. Dechra currently seeks to mitigate foreign currency risk in general by matching revenue and costs in the same currency. However, there can be no assurance that this approach will fully protect the Enlarged Group from exchange rate risk, following the addition of AST Farma's and Le Vet's businesses to the Enlarged Group, given its additional exposure to exchange rate risk, or that the Enlarged Group will continue to be able to enter into such arrangements on commercially reasonable terms. Any significant adverse fluctuations in currency rates could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and prospects.

New product development

The Enlarged Group's future growth is dependent on its ability to develop drugs, new formulations of drugs or identifying opportunities for generic drugs. Dechra, AST Farma and Le Vet each have a good track record in developing new products. Development of new products is dependent on such products coming through the Enlarged Group's research and development department to drive future growth. At each stage of the development process there is a risk that the product does not pass internal requirements, particularly with respect to efficacy against the targeted disease/condition, or pass the relevant regulatory body's approval process. A material part of the value Dechra has put on AST Farma and Le Vet is its product pipeline and failure to achieve future approvals would deliver a lower overall return from the Acquisition.

First to market and market competitors

The actions of existing competitors, or the entry of new competitors into the market, could result in decreased profitability and loss of market share for the Enlarged Group. Whilst the Company believes it is well positioned in its target business areas, there can be no assurance that the Enlarged Group will be able to maintain its present competitive position in the future. This could have a material impact on the Enlarged Group's business, financial performance and prospects.

PART III

SUMMARY OF THE ACQUISITION AND NEW FACILITY AGREEMENT

1. SHARE PURCHASE AGREEMENT

Consideration

€340.0 million to be paid by way of (i) 75 per cent. in cash and (ii) 25 per cent. by the issue of 3,670,625 Ordinary Shares (Consideration Shares). The Consideration Shares have been valued on the basis of the Average Closing Price.

The Consideration is priced on a debt free/cash free/normalised working capital basis – and so an estimated purchase price will be paid on Completion, which will then be adjusted on a euro for euro basis to reflect any debt/cash at Completion and to the extent working capital at Completion is above or below a normalised working capital level. Such adjustment will be done by way of completion accounts, drafts of which must be prepared and delivered by Dechra within 60 days of Completion.

Conditions

Conditions to Completion are (i) shareholder approval from Dechra; (ii) the completion by the Sellers of a pre-Completion carve-out of certain shares and assets; (iii) the transfer of certain product registrations and associated intellectual property rights from one of the Sellers to AST Farma and/or Le Vet; (iv) no material warranty breach between signing and Completion; (v) no breach of pre-Completion covenants; and (vi) no material adverse change has occurred in relation to AST Farma or Le Vet.

In addition the Sellers have the benefit of certain conditions being that no material adverse change has occurred vis a vis Dechra and that certain warranties given by the Purchasers as to capacity and valid execution have not been breached.

In the event the conditions are not fulfilled or, save in relation to the requirement for shareholder approval, waived, then the transaction will not complete.

Warranties and Indemnities

The Share Purchase Agreement contains certain warranties from the Sellers including in relation to title and capacity; corporate information; accounts; stock; customers and suppliers; contracts; insurance; intellectual property and information technology; data protection; anti-corruption; real estate; employees; pensions; regulatory; compliance; litigation; transaction costs; information and tax. The warranties are of a type considered appropriate and normal in the context of transactions of this nature.

A specific indemnity is included from the Sellers in relation to any liability or costs incurred by AST Farma and Le Vet in connection with the pre-completion carve out of certain assets which are not being acquired.

A tax covenant is included pursuant to which the sellers indemnify the Purchasers against any pre-Completion tax liability.

Limits on Liability/Security

The warranties and indemnities are subject to a number of limitations. The key limitations are:

- A financial cap of an amount equal to 17.5 per cent. of the purchase price. This cap does not apply to warranties as to title nor to a claim under the tax covenant or the carve out indemnity where the cap is a sum equal to the purchase price.
- A time limit of 18 months in respect of general warranty claims and four years in relation to tax.

Post Completion Undertakings

AST Farma and Le Vet currently engage certain contract manufacturing entities which are part owned by the Sellers. Dechra has undertaken that subject to capacity restraints and market demand, AST Farma and Le Vet will continue to purchase at least 80 per cent. of the last year's volumes for a period of five years from Completion.

In addition, AST Farma and Le Vet will continue to operate from the Oudewater site for a period of three years from Completion.

Although, as referred to below, there is an agreement to be entered into on Completion regarding the development of the pipeline products, the Sellers may also develop certain other pharmaceutical products (subject to the restrictive covenant referred to below). The Share Purchase Agreement contains a right of first refusal in favour of Dechra to acquire the marketing rights to any products so developed.

Restrictive Covenants

The Sellers will be bound by (and must procure that each of Sebastiaan Tesink and Alexander Tesink comply with) restrictive covenants for a period of 36 months after Completion. The covenants prevent the Sellers from developing products which compete with any of the existing portfolio of target products, any products in the pipeline or any of the top 15 products of Dechra.

Lock in/orderly market

In respect of the Consideration Shares to be issued, the Sellers undertake not to dispose of such shares for two years subject to certain limited exceptions including:

- if a sale is needed to raise funds to satisfy a claim under the Share Purchase Agreement;
- otherwise as part of a takeover offer or reconstruction of Dechra.

Rescission/termination rights

Either party may terminate if the conditions have not been satisfied or waived by 28 February 2018.

The parties waive their rights under sections 6:265 through 6:272 of the Dutch Civil Code to rescind (ontbinden) the agreement, to demand the rescission (ontbinding) of the agreement in legal proceedings or to nullify (vernietigen) the agreement following Completion.

Other key Agreements

Product development is currently outsourced to a company part owned by Sebastiaan and Alexander Tesink. There is a pipeline of over 30 products currently under development. A new agreement is being entered into on Completion to include the services to be provided in relation to the development of those products.

Governing law

Dutch law with the exclusive jurisdiction of the competent court in Amsterdam, The Netherlands.

2. NEW FACILITY AGREEMENT

On 24 January 2018, and subsequent to the Existing Facilities Agreement, Dechra entered into the New Facility Agreement with Santander UK plc as facility agent ("**Agent**") and certain financial institutions as original lenders ("**Original Lenders**", each an "**Original Lender**"). Pursuant to the New Facilities Agreement, the Original Lenders agreed (subject to certain conditions precedent) to make available to Dechra and certain subsidiaries of Dechra (each an "**Original Borrower**" and an "**Original Guarantor**") a multi-currency term loan facility in an aggregate amount equal to £350 million ("**Facility**"), with loans made or to be made under the Facility ("**Loans**") to be applied towards the Acquisition and any other permitted acquisition (as defined in the New Facilities Agreement).

Should the commitments of any Original Lender be cancelled in compliance with the provisions of the Dechra Facilities Agreement, Dechra may, by giving prior notice to Santander UK plc as agent no later than 10 business days after the effective date of the relevant cancellation, request that the commitments be increased in an aggregate amount of up to the amount of the commitments so cancelled if the increased commitments are assumed by one or more eligible institutions (each an "**Increase Lender**"). Additionally, Dechra may request that any of its wholly owned subsidiaries become a borrower ("**Additional Borrower**") or guarantor ("**Additional Guarantor**") and/or request that an Original Borrower cease to be such upon delivery of a resignation letter.

Any Borrower (being either an Original Borrower or an Additional Borrower) may utilise the Facility by delivery to Santander UK plc of a duly completed utilisation request in the form provided, subject to certain conditions, which includes a minimum of £90.0 million having been raised by the Placing. A Borrower may not deliver an utilisation request if as a result of the proposed utilisation more than five Loans would be outstanding. Dechra may, by giving Santander UK plc notice of not less than five business days, cancel the whole or any part of an available facility or prepay the whole or any part of a Loan (with a minimum amount of £1.0 million in relation to each). The Borrowers must repay all outstanding Loans in full on 31 December 2020 ("**Termination Date**").

The rate of interest payable on each Loan is LIBOR for the relevant period (or, in relation to any Loan in euro, EURIBOR) plus a margin. The margin is 1.70 per cent. per annum until 30 June 2018, after which it will vary between 1.10 per cent. and 2.00 per cent. according to the ratio of Dechra's total net debt to adjusted EBITDA in ratchets ranging from 1.0:1.0 (below or equal to which the margin will be 1.10 per cent.) to 2.5:1.0 (above which the margin will be 2.00 per cent.).

The New Facilities Agreement contains customary "certain funds" provisions which prevent the lenders from refusing to make the facilities available or cancelling their commitments unless a major default is continuing or would result from the proposed utilisation or if certain, representations combined in the agreement are not true in all material respects. Major defaults include (but are not limited to) in particular a payment default under the New Facilities Agreement and certain limited covenant defaults. The certain funds period expires on the earlier of 30 June 2018 and completion of the Acquisition. Any amount not drawn by 30 June 2018 will cease to be available.

The New Facilities Agreement contains representations, undertakings and events of default customary for facilities of this type.

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PART IV

HISTORICAL FINANCIAL INFORMATION

Section A: Accountant's Report on the Historical Financial Information of AST Farma B.V.

The Directors
Dechra Pharmaceuticals PLC
24 Cheshire Avenue
Cheshire Business Park
Lostock Gralam
Northwich
CW9 7UA

Investec Bank plc
2 Gresham Street
London
EC2V 7QP

26 January 2018

Dear Sirs

AST Farma B.V.

We report on the financial information relating to AST Farma B.V. for the three years ended 31 December 2016 set out in section B of Part IV below (the "**Financial Information Table"**). The Financial Information Table has been prepared for inclusion in the Class 1 circular dated 26 January 2018 (the "**Circular**") of Dechra Pharmaceuticals PLC (the "**Company**") on the basis of the accounting policies set out in note 1 to the Financial Information Table. This report is required by item 13.5.22R of the Listing Rules of the United Kingdom Listing Authority (the "**Listing Rules**") and is given for the purpose of complying with that item and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the Financial Information Table in accordance with International Financial Reporting Standards as adopted by the European Union and in a form that is consistent with the accounting policies adopted in the Company's latest annual accounts.

It is our responsibility to form an opinion as to whether the Financial Information Table gives a true and fair view, for the purposes of the Circular and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to AST Farma B.V. circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the Financial Information Table gives, for the purposes of the Circular dated 26 January 2018, a true and fair view of the state of affairs of AST Farma B.V. as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART IV

HISTORICAL FINANCIAL INFORMATION

Section B: Historical Financial Information on AST Farma B.V.

Statement of Profit and Loss and other comprehensive income
for the three years ended 31 December 2016

	Note	*2014*	*2015*	*2016*
		€	€	€
Revenue	2	17,206,648	18,240,278	19,897,374
Cost of sales		(7,453,809)	(7,816,894)	(8,360,549)
Gross profit		9,752,839	10,423,384	11,536,825
Selling, general and administrative expenses		(2,384,153)	(2,437,631)	(2,626,631)
Operating profit		7,368,686	7,985,753	8,910,194
Finance income	5	–	–	3,372
Finance expense	5	(11,924)	(17,305)	(17,617)
Net financing expense		(11,924)	(17,305)	(14,245)
Profit before tax	3	7,356,762	7,968,448	8,895,949
Income tax expense	6	(1,830,290)	(1,983,238)	(2,215,112)
Profit for the year		5,526,472	5,985,210	6,680,837
Earnings per share				
Basic	7	138,161.80	149,630.25	167,020.93

There are no items in any of the three years requiring recognition in other comprehensive income.

Statement of financial position
at 31 December 2016

	Note	1 January 2014 €	31 December 2014 €	31 December 2015 €	31 December 2016 €
Assets					
Non-current assets					
Property, plant and equipment	8	151,565	223,182	165,501	140,169
		151,565	223,182	165,501	140,169
Current assets					
Inventories	9	1,958,315	2,464,506	2,768,697	3,202,666
Trade and other receivables	10	971,983	1,349,357	1,538,858	1,734,100
Cash and cash equivalents	11	464,528	54,543	224,511	93,505
Total current assets		3,394,826	3,868,406	4,532,066	5,030,271
Total assets		3,546,391	4,091,588	4,697,567	5,170,440
Non-current liabilities					
Deferred tax liabilities		494	–	–	–
Total non-current liabilities		494	–	–	–
Current liabilities					
Trade and other payables	12	2,647,746	2,976,570	3,486,207	3,873,187
Total current liabilities		2,647,746	2,976,570	3,486,207	3,873,187
Total liabilities		2,648,240	2,976,570	3,486,207	3,873,187
Net assets		898,151	1,115,018	1,211,360	1,297,253
Equity attributable to equity holders					
Share capital	14	18,151	18,151	18,151	18,151
Retained earnings		880,000	1,096,867	1,193,209	1,279,102
Total equity		898,151	1,115,018	1,211,360	1,297,253

Statement of Changes in Equity

	Share capital €	*Retained earnings* €	*Total equity* €
Balance at 1 January 2014	18,151	880,000	898,151
Total comprehensive income			
Profit or loss for the year	–	5,526,472	5,526,472
Total comprehensive income for the year	–	5,526,472	5,526,472
Transactions with owners			
Dividends	–	(5,309,605)	(5,309,605)
Total contributions by and distributions to owners	–	(5,309,605)	(5,309,605)
Balance at 31 December 2014	18,151	1,096,867	1,115,018
Balance at 1 January 2015	18,151	1,096,867	1,115,018
Total comprehensive income			
Profit or loss for the year	–	5,985,210	5,985,210
Total comprehensive income	–	5,985,210	5,985,210
Transactions with owners			
Dividends	–	(5,888,868)	(5,888,868)
Total contributions by and distributions to owners	–	(5,888,868)	(5,888,868)
Balance at 31 December 2015	18,151	1,193,209	1,211,360
Balance at 1 January 2016	18,151	1,193,209	1,211,360
Total comprehensive income			
Profit or loss for the year	–	6,680,837	6,680,837
Total comprehensive income		6,680,837	6,680,837
Transactions with owners			
Dividends	–	(6,594,944)	(6,594,944)
Total contributions by and distributions to owners	–	(6,594,944)	(6,594,944)
Balance at 31 December 2016	18,151	1,279,102	1,297,253

Statement of Cash Flows

	Note	2014 €	2015 €	2016 €
Cash flows from operating activities				
Operating profit		7,368,686	7,985,753	8,910,194
Adjustments for:				
Depreciation	8	88,231	77,121	60,893
Loss on disposal of tangible assets	8	–	–	879
Operating cash flows before changes in working capital		7,456,917	8,062,874	8,971,966
Increase in trade and other receivables		(377,374)	(189,501)	(195,242)
Increase in inventories		(506,191)	(304,191)	(433,969)
Increase in trade and other payables		328,547	509,217	390,352
Cash generated from operating activities before interest and taxation		6,901,899	8,078,399	8,733,107
Interest paid		(11,647)	(16,885)	(17,617)
Income taxes paid		(1,830,784)	(1,983,238)	(2,215,112)
Net cash inflow from operating activities		5,059,468	6,078,276	6,500,378
Cash flow from investing activities				
Acquisition of property, plant and equipment	8	(159,848)	(19,440)	(36,440)
Net cash from investing activities		(159,848)	(19,440)	(36,440)
Cash flows from financing activities				
Dividends paid	15	(5,309,605)	(5,888,868)	(6,594,944)
Net cash outflow from financing activities		(5,309,605)	(5,888,868)	(6,594,944)
Net (decrease)/increase in cash and cash equivalents		(409,985)	169,968	(131,006)
Cash and cash equivalents at start of period	11	464,528	54,543	224,511
Cash and cash equivalents at end of period	11	54,543	224,511	93,505

Notes
(forming part of the historical financial information)

1. Accounting policies

1.1 *Basis of preparation*

AST Farma B.V. (the "AST Farma") is a private company incorporated, domiciled and registered in the Netherlands and the registered address is AST Farma B.V. Wilgenweg 7, 3421 TV, OUDEWATER.

The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting The historical financial information of AST Farma B.V. has been prepared in accordance with the requirements of the Listing Rules and in accordance with International Financial Reporting Standards (IFRS) and related interpretations as adopted by the European Union and is also in compliance with IFRS as issued by the International Accounting Standards Board (the IASB).

It reflects the results of AST Farma B.V, prepared in accordance with the accounting policies adopted in Dechra Pharmaceuticals PLC's latest Annual Report, or for areas that are new to Dechra Pharmaceuticals PLC, in accordance with the accounting policies that Dechra Pharmaceuticals PLC intends to adopt.

The historical financial information is presented in Euros. The historical financial information is prepared on a going concern basis.

1.2 *IFRS transition*

AST Farma's deemed transition date to IFRS is 1 January 2014. The principles and requirements of first time IFRS adoption are set out in IFRS 1. IFRS 1 allows certain exemptions in the application of particular standards to prior periods in order to assist companies with the transition process. AST Farma has elected to take one of these exemptions as set out in note 20 below. This is the first financial information prepared in accordance with IFRS.

1.3 *Judgements and estimates*

Judgements made by the directors of Dechra Pharmaceuticals PLC, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 19.

1.4 *Measurement convention*

The financial statements are prepared on the historical cost basis.

1.5 *Going concern*

AST Farma meets its day-to-day working capital requirements through its current cash facilities. AST Farma's forecasts and projections, taking account of reasonably possible changes in trading performance, show that AST Farma is able to operate within the level of its current cash availability. There are no significant borrowings due within the year. Having assessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing its consolidated financial statements.

1.6 *Foreign currency*

Transactions in foreign currencies are translated to the respective functional currencies of AST Farma at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

1.7 *Dividends*

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

1.8 *Classification of financial instruments issued by AST Farma*

Financial instruments issued by AST Farma are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon AST Farma to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to AST Farma; and

(b) where the instrument will or may be settled in AST Farma's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the AST Farma's own equity instruments or is a derivative that will be settled by AST Farma's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of AST Farma's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.9 *Non-derivative financial instruments*

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, payables to related parties and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is recognised in the income statement in selling, general and administrative expenses.

Payables to related parties and trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

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 AST Farma's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

1.10 *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Plant & Fixtures/Motor Vehicles	5 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.11 ***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 cost 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.

1.12 ***Impairment excluding inventories and deferred tax assets***

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

1.13 ***Employee benefits***

Pensions – Defined contribution plans

AST Farma participates in a post-employment benefit plan under which AST Farma pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

1.14 ***Revenue***

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

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

Rebates, deductions and discounts are provided for in the same period as the related sales are recorded, and are recognised when reliable estimates can be made of relevant deductions and all relevant obligations have been fulfilled, such that the earnings process is regarded as being complete. We estimate the quantity and value of goods which may ultimately be returned at the point of sale. The return accruals are based on actual experience over the preceding 12 months for established products. For newly launched products, AST Farma uses rates based on our experience with similar products or a predetermined percentage.

1.15 ***Expenses***

Operating lease payments

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

Financing income and expenses

Finance expenses comprise interest payable and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Finance income comprise interest receivable on funds invested, and net foreign exchange gains. Foreign exchange gains and losses relate to immaterial trade outside of the Netherlands by the entity.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

1.16 ***Taxation***

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet 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.

1.17 ***Adopted IFRS not yet applied***

There are a number of new standards and amendments to existing standards currently in issued but not yet effective, including three significant standards:

IFRS 9 Financial Instruments.

IFRS 15 Revenue from Contract with Customers.

IFRS 16 Leases.

IFRS 9 and IFRS 15 are now expected to be effective for Dechra Pharmaceuticals PLC for the financial year ended 30 June 2019 with IFRS 16 effective for the financial year ended 30 June 2020. Given the date of adoption by Dechra Pharmaceuticals PLC, the Dechra Pharmaceuticals PLC Directors have not yet quantified the impact of these standards on the historical financial information of AST Farma.

2. Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocated resources to and assesses the performance of the operating segments of an entity. AST Farma has determined that its chief operating decision maker is the Executive Directors of AST Farma. AST Farma considers that it only has one operating segment being the sale of veterinary pharmaceutical products to its distributors.

Revenue from external customers for products

	2014 €	*2015* €	*2016* €
Sale of goods	17,206,648	18,240,278	19,897,374

Revenue from external customers by geographic areas

	2014 €	*2015* €	*2016* €
Netherlands	17,206,648	18,240,278	19,897,374
Total revenues	17,206,648	18,240,278	19,897,374

All non-current assets relate to the Netherlands region in all periods.

No individual customers contribute greater than 10 per cent. of overall company revenues.

3. Profit before taxation

Included in profit/loss are the following:

	2014 €	*2015* €	*2016* €
Depreciation	88,231	77,121	60,893
Operating lease rentals	118,698	147,944	175,885
Profit or loss on disposal of PPE	–	–	879
Inventory recognised as an expense	5,532,883	5,769,914	6,110,583
Auditor's Remuneration	8,274	5,176	4,364

4. Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

		Number of employees	
	2014	*2015*	*2016*
Administration	10	10	12
Distribution	6	6	6
	16	16	18

The aggregate payroll costs of these persons were as follows:

	2014 €	*2015* €	*2016* €
Wages and salaries	838,439	852,156	990,085
Social security costs	154,602	159,713	178,996
Other pension costs	46,363	42,235	48,814
	1,039,404	1,054,104	1,217,895

Payroll costs are recognised in the following line items in the income statement:

	2014 €	2015 €	2016 €
Selling, general and administrative expenses	1,039,404	1,054,104	1,217,895

5. Finance income and expense

Recognised in profit or loss

	2014 €	2015 €	2016 €
Finance income			
Net foreign exchange gains	–	–	3,372
Total finance income	–	–	3,372
Finance expense			
Interest on financial liabilities at amortised cost	4,953	7,343	8,105
Net foreign exchange losses	277	420	–
Payment differences	6,694	9,542	9,512
Total finance expense	11,924	17,305	17,617

6. Taxation

Recognised in the income statement

	2014 €	2015 €	2016 €
Current tax expense	1,830,290	1,983,238	2,215,112
Total current tax expense	1,830,290	1,983,238	2,215,112

Reconciliation of effective tax rate

The tax on the Group's profit before taxation differs from the standard rate of NL corporation tax of 25 per cent. (2015: 25 per cent.; 2014: 25 per cent.). The differences to this rate are explained below:

	2014 €	2015 €	2016 €
Profit for the year	5,526,472	5,985,210	6,680,837
Total tax expense	1,830,290	1,983,238	2,215,112
Profit before taxation	7,356,762	7,968,448	8,895,949
Tax using the NL corporation tax rate of 25% *(2015: 25%; 2014: 25%)*	1,839,191	1,992,112	2,223,987
Effect of 20% rate for income up to €200,000	(10,000)	(10,000)	(10,000)
Non-deductible expenses	1,099	1,126	1,125
Total tax expense	1,830,290	1,983,238	2,215,112

7. Earnings per share

Earnings per ordinary share has been calculated by dividing the profit attributable to equity holders of the parent after taxation for each financial period by the weighted average number of ordinary shares in issue during the period.

	2014	*2015*	*2016*
	€	*€*	*€*
Basic earnings per share	138,161.80	149,630.25	167,020.93

The calculation of basic earnings per share is based upon:

	2014	*2015*	*2016*
	€	*€*	*€*
Earnings for basic earnings per share	5,526,472	5,985,210	6,680,837

		Number	
	2014	*2015*	*2016*
Weighted average number of ordinary shares for basic earnings per share	40	40	40

8. Property, plant and equipment

	Plant & Fixtures €	*Motor vehicles* €	*Total* €
Cost			
Balance at 1 January 2014	419,331	–	419,331
Additions	146,283	13,565	159,848
Disposals	(33,185)	–	(33,185)
Balance at 31 December 2014	532,429	13,565	545,994
Balance at 1 January 2015	532,429	13,565	545,994
Additions	19,440	–	19,440
Disposals	(4,430)	–	(4,430)
Balance at 31 December 2015	547,439	13,565	561,004
Balance at 1 January 2016	547,439	13,565	561,004
Additions	36,440	–	36,440
Disposals	(1,758)	–	(1,758)
Balance at 31 December 2016	582,121	13,565	595,686
Depreciation and impairment			
Balance at 1 January 2014	267,766	–	267,766
Depreciation charge for the year	88,190	41	88,231
Disposals	(33,185)	–	(33,185)
Balance at 31 December 2014	322,771	41	322,812
Balance at 1 January 2015	322,771	41	322,812
Depreciation charge for the year	74,658	2,463	77,121
Disposals	(4,430)	–	(4,430)
Balance at 31 December 2015	392,999	2,504	395,503
Balance at 1 January 2016	392,999	2,504	395,503
Depreciation charge for the year	58,430	2,463	60,893
Disposals	(879)	–	(879)
Balance at 31 December 2016	450,550	4,967	455,517
Net book value			
At 1 January 2014	151,565	–	151,565
At 31 December 2014 and 1 January 2015	209,658	13,524	223,182
At 31 December 2015 and 1 January 2016	154,440	11,061	165,501
At 31 December 2016	131,571	8,598	140,169

Depreciation and impairment charge

The depreciation and impairment charge is recognised in the following line items in the income statement:

	2014 €	*2015* €	*2016* €
Selling, General and Administrative expenses	88,231	77,121	60,893

All motor vehicles recognised in Property, plant and equipment as at 31 December 2016 will be carried out by AST Farma as part of the transaction.

9. Inventories

	2014 €	*2015* €	*2016* €
Finished goods	2,464,506	2,768,697	3,202,666

10. Trade and other receivables

	2014 €	*2015* €	*2016* €
Trade receivables	1,340,592	1,486,065	1,659,226
Other receivables	4,996	8,140	1,791
Prepayments and accrued income	3,769	44,653	73,083
	1,349,357	1,538,858	1,734,100

11. Cash and cash equivalents

	2014 €	*2015* €	*2016* €
Cash and cash equivalents	54,543	224,511	93,505

12. Trade and other payables

	2014 €	*2015* €	*2016* €
Payables due to related parties	2,147,097	2,824,793	3,066,569
Trade payables	625,779	450,188	556,154
Accruals and deferred income	86,651	68,532	115,805
Other taxation and social security	117,043	142,694	134,659
	2,976,570	3,486,207	3,873,187

13. Employee benefits

Defined contribution plans

The pension plan is classified as a defined contribution plan, as AST Farma B.V. pay fixed contributions to the pension fund and will have no further obligation (legal or constructive) to pay further amounts if the fund has insufficient assets to pay all employee benefits relating to current and prior service.

The total expense relating to this plan in the current year was €48,814 (2015: €42,235; 2014: €46,363).

14. Capital and reserves

	2014 €	*2015* €	*2016* €
Allotted, called up and fully paid			
40 ordinary shares of €453.78 *(2015: €453.78; 2014: of €453.78)*	18,151	18,151	18,151

15. Dividends

The following dividends were recognised during the period:

	2014	*2015*	*2016*
	€	€	€
Dividends	5,309,605	5,888,868	6,594,944

The dividend recognised in 2016 was €164,874 per share (2015: €147,222; 2014: €132,740).

16. Financial instruments

AST Farma's financial instruments comprise cash and cash equivalents, trade receivables, payables to related parties and trade payables.

Treasury policy

AST Farma reports in Euros and pays out dividends in Euros. The Board of Directors is responsible for the treasury activities. AST Farma holds a cash account to manage its cash requirements.

Capital management

The capital structure of AST Farma consists of shareholders' equity. AST Farma does not have any external borrowing facilities. Operating cash flow is used to fund investment in new products as well as to make routine investment in capital expenditure, tax payments and dividends.

Financial risk management

AST Farma has exposures to liquidity, market and credit risks as described further below.

Liquidity risk

Liquidity risk is the risk that AST Farma will not have sufficient funds to meet liabilities as they fall due. Cash flows of AST Farma are monitored quarterly and reviewed to ensure appropriate headroom is held to meet cash flow requirements for the next 12 month period. AST Farma meets its liquidity requirements through operating cash flows and has a bank account.

Market risk

Market risk is the risk that changes in market price such as foreign exchange rates or interest rates will affect AST Farma's income.

AST Farma has limited exposure to interest rate risk given no borrowings are held.

Foreign currency transaction exposure arising on normal trade flows is not hedged and AST Farma will match receipts and payments in the relevant foreign currencies as far as possible.

Credit risk

Credit risk if the risk of financial loss to AST Farma if a customer of counterparty to a financial instrument fails to meet its contractual obligations.

AST Farma considers its maximum credit risk to be €1,661,017 *(2015: €1,494,205, 2014: €1,345,588)*, which is the total carrying value of AST Farma's financial assets excluding cash and cash equivalents.

Cash is only deposited with highly rated banks in line with our treasury policies.

AST Farma offers trade credit to customers in line with the normal course of business.

Our principal customers are pharmaceutical wholesalers and distributors. The failure of a large wholesaler could have a material adverse impact on AST Farma's financial results.

Receivables are written off when management considers the debt to be no longer recoverable.

Fair value of financial assets and liabilities

Cash and cash equivalents – approximated to the carrying amount

Receivables and payables – approximated to the carrying amount

As the fair value and carrying value of all financial assets and liabilities are deemed to approximate to the carrying amount, therefore no further analysis of financial instruments is provided.

Credit risk – overdue financial assets

Exposure to credit risk

The maximum exposure to credit risk at the balance sheet date by class of financial instrument was:

	2014	*2015*	*2016*
	€	€	€
Trade and other receivables	1,345,588	1,494,205	1,661,017

The concentration of credit risk for trade receivables at the balance sheet date by geographic region was:

	2014	*2015*	*2016*
	€	€	€
The Netherlands	1,340,592	1,486,065	1,659,226

Credit quality of financial assets and impairment losses

The ageing of trade receivables at the balance sheet date was:

	2014	*2015*	*2016*
	€	€	€
0-30 days	1,199,723	1,396,617	1,608,222
31-60 days	112,450	52,474	38,529
61-90 days	21,011	29,129	13,325
Greater than 90 days	12,808	13,170	5,986
Total trade receivables	1,345,992	1,491,390	1,666,062

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2014	*2015*	*2016*
	€	€	€
Balance at 1 January	10,000	5,400	5,325
Impairment provision recognised	–	3,171	3,413
Impairment provision utilised	(4,600)	(3,246)	(1,902)
Balance at 31 December	5,400	5,325	6,836

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due.

The Group's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments.

31 December 2016

	Euro €	*Other* €	*Total* €
Cash and cash equivalents	93,505	–	93,505
Trade and other receivables	1,734,100	–	1,734,100
Trade payables	(668,372)	(3,587)	(671,959)
Net exposure	1,159,233	(3,587)	1,155,646

31 December 2015

	Euro €	*Other* €	*Total* €
Cash and cash equivalents	224,511	–	224,511
Trade and other receivables	1,538,858	–	1,538,858
Trade payables	(516,326)	(2,394)	(518,720)
Net exposure	1,247,043	(2,394)	1,244,649

31 December 2014

	Euro €	*Other* €	*Total* €
Cash and cash equivalents	54,543	–	54,543
Trade and other receivables	1,349,357	–	1,349,357
Trade payables	(708,791)	(3,639)	(712,430)
Net exposure	695,109	(3,639)	691,470

17. Operating leases

The future aggregate minimum lease payments under non-cancellable operating lease rentals are payable as follows:

	2014 €	*2015* €	*2016* €
Less than one year	118,698	147,944	175,885
Between one and five years	474,793	518,419	509,585
More than five years	229,132	112,500	–
	822,623	778,863	685,470

AST Farma leases property and equipment for operational purposes. Property leases vary in length up to 10 years and equipment leases between three to six years. Renewal options are available on property after the first and second five year periods with no contingent rentals payable.

18. Related parties

As a result of indirect significant influence by the ultimate controlling party of the company, LelyPharma Beheer B.V., Produlabs Pharma Beheer B.V. and Apotheek Kisters B.V. are related parties of the company.

Transactions with key management personnel

Directors of AST Farma and their immediate relatives control 100 per cent. of the voting shares of AST Farma.

None of the directors of AST Farma are remunerated directly by AST Farma, however, a management fee is paid to AST Beheer in respect of their services to AST Farma provided by Mr A.S. Tesink and disclosed in the table below.

Other related party transactions

Other related party transactions include sales and purchases made with Le Vet, Produlab Pharma Beheer B.V., LelyPharma Beheer B.V. and Apotheek Kisters B.V. in respect of product. Royalties paid by AST Farma to AST Beheer in relation to the sale of products AST Beheer has registered on behalf of AST Farma. These will no longer be paid following completion as detailed in note 21.

2016

	Sales €	*Expenses* €	*Management fee* €	*Purchases* €
Sales and purchases with Le Vet	353,412	–	–	1,856,078
Purchases from Produlab Pharma Beheer B.V.	–	–	–	2,616,000
Purchases from LelyPharma Beheer B.V	–	–	–	1,212,000
Purchases from Apotheek Kisters B.V.	–	–	–	212,000
Royalty payments to AST Beheer B.V.	–	1,071,000	–	–
Rent payments to AST Beheer B.V.	–	120,000	–	–
Management fees to AST Beheer B.V.	–	–	216,000	–
	353,412	1,191,000	216,000	5,896,078

2015

	Sales €	*Expenses* €	*Management fee* €	*Purchases* €
Sales and purchases with Le Vet	268,091	–	–	1,385,000
Purchases from Produlab Pharma Beheer B.V.	–	–	–	3,035,000
Purchases from LelyPharma Beheer B.V	–	–	–	625,202
Purchases from Apotheek Kisters B.V.	–	–	–	186,000
Royalty payments to Le Vet	–	232,000	–	–
Royalty payments to AST Beheer B.V.	–	993,000	–	–
Rent payments to AST Beheer B.V.	–	120,000	–	–
Management fees to AST Beheer B.V.	–	–	216,000	–
	268,091	1,345,000	216,000	5,231,202

2014

	Sales €	*Expenses* €	*Management fee* €	*Purchases* €
Sales and purchases with Le Vet	216,294	–	–	997,000
Purchases from Produlab Pharma Beheer B.V.	–	–	–	3,472,000
Purchases from LelyPharma Beheer B.V	–	–	–	477,478
Purchases from Apotheek Kisters B.V.	–	–	–	121,000
Royalty payments to Le Vet	–	199,000	–	–
Royalty payments to AST Beheer B.V.	–	937,000	–	–
Rent payments to AST Beheer B.V.	–	118,000	–	–
Management fees to AST Beheer B.V.	–	–	216,000	–
	216,294	1,254,000	216,000	5,067,487

	Payables outstanding 2014 €	*Payables outstanding 2015* €	*Payables outstanding 2016* €
Other related parties – AST Beheer	2,147,097	2,824,793	3,066,569

Note: No receivable balances were outstanding with related parties at any of the respective year ends.

19. Critical judgements in applying AST Farma's accounting policies and Key Sources of Estimation Uncertainty

In the process of applying AST Farma's accounting policies, Dechra Pharmaceuticals PLC's directors have made no critical judgements and estimates that have an effect on the amounts recognised in the financial statements.

20. Transition to IFRS

As stated in note 1, this is AST Farma's first historical financial information prepared in accordance with IFRS.

The accounting policies set out in the notes have been applied in preparing the historical financial information for the three years ended 31 December 2016 and in the preparation of an opening balance sheet at 1 January 2014 (AST Farma's date of transition).

There were no differences between IFRS and existing Dutch GAAP in the statement of financial position and statement of profit and loss and other comprehensive income. A cash flow statement is presented for the first time, with no previous disclosure made under Dutch GAAP financial statements.

21. Subsequent events

As part of the transaction, the acquirer will acquire the following entities and assets through the transaction;

- Certain registration licences owned by AST Beheer and Curados B.V. will be transferred to the newly acquired entity at a value of €Nil.

At completion, certain non-operational assets will be transferred out of AST Farma B.V. to the sellers which consists of:

- Motor vehicles held by AST Farma B.V. personally used by the seller and included within PP&E of the entities in the historic financial information prepared at net book value of €8,598. The car was transferred out at a value of €10,000.

PART IV

HISTORICAL FINANCIAL INFORMATION

Section C: Accountant's Report on the Historical Financial Information of Le Vet Beheer B.V.

The Directors
Dechra Pharmaceuticals PLC
24 Cheshire Avenue
Cheshire Business Park
Lostock Gralam
Northwich
CW9 7UA

Investec Bank plc
2 Gresham Street
London
EC2V 7QP

26 January 2018

Dear Sirs

Le Vet Beheer B.V.

We report on the financial information relating to Le Vet Beheer B.V. for the three years ended 31 December 2016 set out in section D of Part IV below (the "**Financial Information Table**"). The Financial Information Table has been prepared for inclusion in the Class 1 circular dated 26 January 2018 (the "**Circular**") of Dechra Pharmaceuticals PLC (the "**Company**") on the basis of the accounting policies set out in note 1 to the Financial Information Table. This report is required by item 13.5.22R of the Listing Rules of the United Kingdom Listing Authority (the "**Listing Rules**") and is given for the purpose of complying with that item and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the Financial Information Table in accordance with International Financial Reporting Standards as adopted by the European Union and in a form that is consistent with the accounting policies adopted in the Company's latest annual accounts.

It is our responsibility to form an opinion as to whether the Financial Information Table gives a true and fair view, for the purposes of the Circular and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

PricewaterhouseCoopers LLP, 1 Embankment Place, London, WC2N 6RH
T: +44 (0) 2075 835 000, F: +44 (0) 2072 124 652, www.pwc.co.uk

Basis for disclaimer of opinion

Given the size of the company and its operations, Le Vet Beheer B.V. did not implement and maintain appropriate internal controls to ensure the completeness of underlying accounting records. As a result, we have been unable to obtain sufficient appropriate audit evidence in relation to completeness of revenue, purchases and related items for the three years ended 31 December 2016 included in the Financial Information Table.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for disclaimer of opinion, we have not been able to obtain sufficient audit evidence to provide a basis for an opinion in respect of the financial information for the three years ended 31 December 2016 included in the Financial Information Table. Accordingly we do not express an opinion on the financial information included in the Financial Information Table prepared for the purposes of the Circular dated 26 January 2018.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART IV

HISTORICAL FINANCIAL INFORMATION

Section D: Historical Financial Information on Le Vet Beheer B.V.

Consolidated Statement of Profit and Loss and other comprehensive income
For the three years ended 31 December 2016

	Note	*2014*	*2015*	*2016*
		€	€	€
Revenue	2	12,245,502	15,738,892	23,212,923
Cost of sales		(8,290,277)	(11,100,653)	(16,644,457)
Gross profit		3,955,225	4,638,239	6,568,466
Selling, general and administrative expenses		(1,522,398)	(1,977,133)	(2,523,140)
Research and development expenses		(1,817,450)	(896,191)	(1,971,454)
Operating profit		615,377	1,764,915	2,073,872
Finance income	5	28,343	38,486	49,533
Finance expense	5	(7,222)	(5,027)	(11,233)
Net finance income		21,121	33,459	38,300
Share of profit of investments accounted for using the equity method	10	80,297	168,757	186,174
Profit before tax	3	716,795	1,967,131	2,298,346
Income tax expense	6	(212,278)	(439,377)	(519,391)
Profit for the year		504,517	1,527,754	1,778,955
Earnings per share				
Basic	7	18.78	56.87	66.22

There are no items in any of the three years requiring recognition in other comprehensive income.

Consolidated Statement of Financial Position

at 31 December 2016

	Note	*1 January 2014* €	*31 December 2014* €	*31 December 2015* €	*31 December 2016* €
ASSETS					
Non-current assets					
Property, plant and equipment	8	184,423	137,230	166,515	295,245
Intangible assets	9	1,261,868	1,597,877	2,611,338	4,039,795
Investments	10	4,507	84,804	253,561	2,373,213
Total non-current assets		1,450,798	1,819,911	3,031,414	6,708,253
Current assets					
Inventories	12	209,485	192,834	347,612	1,098,668
Trade and other receivables	13	3,344,265	4,505,112	3,107,171	5,745,030
Cash and cash equivalents	14	259,199	236,229	1,501,246	852,648
Total current assets		3,812,949	4,934,175	4,956,029	7,696,346
Total assets		5,263,747	6,754,086	7,987,443	14,404,599
Liabilities					
Non-current liabilities					
Other interest bearing loans and borrowings	16	29,866	18,981	–	–
Deferred tax liabilities	11	247,972	393,967	647,333	1,004,447
Total non-current liabilities		277,838	412,948	647,333	1,004,447
Current liabilities					
Other interest bearing loans and borrowings	16	10,118	11,364	–	–
Trade and other payables	15	1,415,113	2,839,529	2,322,111	6,603,198
Total current liabilities		1,425,231	2,850,893	2,322,111	6,603,198
Total liabilities		1,703,069	3,263,841	2,969,444	7,607,645
Net assets		3,560,678	3,490,245	5,017,999	6,796,954
Equity attributable to equity holders					
Issued share capital	18	671,600	671,600	671,600	671,600
Share premium		1,214,200	1,214,200	1,214,200	1,214,200
Legal reserves		996,395	1,266,706	2,195,559	3,285,076
Retained earnings		678,483	337,739	936,640	1,626,078
Total equity		3,560,678	3,490,245	5,017,999	6,796,954

Consolidated Statement of Changes in Equity

	Share capital €	*Share premium* €	*Retained earnings* €	*[1]Legal reserves* €	*Total equity* €
Balance at 1 January 2014	671,600	1,214,200	678,483	996,395	3,560,678
Total comprehensive income for the year					
Profit for the year	–	–	504,517	–	504,517
Total comprehensive income for the year	–	–	504,517	–	504,517
Transactions with owners					
Dividends	–	–	(574,950)	–	(574,950)
Total contributions by and distributions to owners	–	–	(574,950)	–	(574,950)
Development expenditures	–	–	(190,014)	190,014	–
Non-distributed profits – Regivet B.V.	–	–	(80,297)	80,297	–
Balance at 31 December 2014	671,600	1,214,200	337,739	1,266,706	3,490,245
Balance at 1 January 2015	671,600	1,214,200	337,739	1,266,706	3,490,245
Total comprehensive income for the year					
Profit for the year	–	–	1,527,754	–	1,527,754
Total comprehensive income for the year	–	–	1,527,754	–	1,527,754
Transactions with owners					
Dividends	–	–	–	–	–
Total contributions by and distributions to owners	–	–	–	–	–
Development expenditures	–	–	(760,096)	760,096	–
Non-distributed profits – Regivet B.V.	–	–	(168,757)	168,757	–
Balance at 31 December 2015	671,600	1,214,200	936,640	2,195,559	5,017,999
Balance at 1 January 2016	671,600	1,214,200	936,640	2,195,559	5,017,999
Total comprehensive income for the year					
Profit for the year	–	–	1,778,955	–	1,778,955
Total comprehensive income for the year	–	–	1,778,955	–	1,778,955
Transactions with owners					
Dividends	–	–	–	–	–
Total contributions by and distributions to owners	–	–	–	–	–
Development expenditures	–	–	(1,071,343)	1,071,343	–
Non-distributed profits – Regivet B.V.	–	–	(18,174)	18,174	–
Balance at 31 December 2016	671,600	1,214,200	1,626,078	3,285,076	6,796,954

[1] Legal reserves consist of the reserve for capitalised development expenditures and non-distributed profits from associates accounted for using the equity method (Regivet B.V.). Legal reserves consist of reserves which have to be established in certain circumstances in accordance with the Dutch Civil Code. Legal reserves are not available for distribution to shareholders.

Consolidated Statement of Cash Flows

	Note	*2014* €	*2015* €	*2016* €
Cash flows from operating activities				
Operating profit		615,377	1,764,915	2,073,872
Adjustments for:				
Depreciation		49,693	47,287	53,106
Amortisation		442,056	505,440	981,972
Gain on disposal of tangible fixed assets		–	20,082	–
Operating cash flows before changes in working capital		1,107,126	2,337,724	3,108,950
Decrease/(increase) in inventories		16,651	(154,778)	(751,056)
(Increase)/decrease in trade and other receivables		(1,160,847)	1,397,941	(2,637,859)
Increase/(decrease) in trade and other payables		1,424,416	(517,417)	4,274,193
Cash generated from operating activities before interest and taxation		1,387,346	3,063,470	3,994,228
Interest paid		(7,222)	(5,027)	(4,340)
Income tax paid		(66,283)	(186,012)	(162,277)
Net cash inflow from operating activities		1,313,841	2,872,431	3,827,611
Cash flows from investing activities				
Interest received		28,343	38,486	49,533
Acquisition of property, plant and equipment	8	(2,500)	(96,654)	(181,835)
Capitalised development expenditure	9	(778,065)	(1,518,901)	(2,410,429)
Acquisition of investments	10	–	–	(2,101,478)
Dividends received		–	–	168,000
Net cash outflow from investing activities		(752,222)	(1,577,069)	(4,476,209)
Cash flows from financing activities				
Loan repayment		(9,639)	(30,345)	–
Dividends paid	19	(574,950)	–	–
Net cash outflow from financing activities		(584,589)	(30,345)	–
Net (decrease)/increase in cash and cash equivalents		(22,970)	1,265,017	(648,598)
Cash and cash equivalents at 1 January		259,199	236,229	1,501,246
Cash and cash equivalents at 31 December	14	236,229	1,501,246	852,648

Notes

(forming part of the financial statements for the historical financial information)

1. Accounting policies

1.1 ***Basis of preparation***

Le Vet Beheer B.V. (the "**Le Vet**") is a private company incorporated, domiciled and registered in the Netherlands and the registered address is Le Vet Beheer B.V. Wilgenweg 7 3421 TV OUDEWATER.

The consolidated historical financial information of Le Vet Beheer B.V. has been prepared in accordance with the requirements of the Listing Rules and in accordance with International Financial Reporting Standards (IFRS) and related interpretations as adopted by the European Union and is also in compliance with IFRS as issued by the International Accounting Standards Board (IASB). It reflects the results of Le Vet Beheer B.V. and its subsidiaries (the "**Le Vet Group**") prepared in accordance with the accounting policies adopted in Dechra Pharmaceuticals PLC's latest Annual Report or, for areas that are new to Dechra Pharmaceuticals PLC, in accordance with the accounting policies that Dechra Pharmaceuticals PLC intends to adopt.

The consolidated historical financial information is presented in Euros. The consolidated historical financial information is prepared on a going concern basis.

1.2 ***IFRS transition***

The Le Vet Group's deemed transition date to IFRS is 1 January 2014. The principles and requirements of first time IFRS adoption are set out in IFRS 1. IFRS 1 allows certain exemptions in the application of particular standards to prior periods in order to assist companies with the transition process. No exemptions have been taken as set out in note 24 below. This is the first financial information prepared in accordance with IFRS.

1.3 ***Judgements and estimates***

Judgements made by the directors of Dechra Pharmaceuticals PLC, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 23.

1.4 ***Going concern***

The Le Vet Group meets its day-to-day working capital requirements through its current cash facilities. The Le Vet Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Le Vet Group is able to operate within the level of its current cash availability. There are no significant borrowings due within the year. Having assessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing its consolidated financial statements.

1.5 ***Foreign currency***

Transactions in foreign currencies are translated to the respective functional currencies of the Le Vet Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

1.6 ***Classification of financial instruments issued by the Le Vet Group***

Financial instruments issued by the Le Vet Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Le Vet Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Le Vet Group; and

(b) where the instrument will or may be settled in the Le Vet Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of Le Vet's own equity instruments or is a derivative that will be settled by Le Vet exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of Le Vet's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.7 ***Basis of consolidation***

Subsidiaries

Subsidiaries are entities controlled by the Le Vet Group. The Le Vet Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Le Vet Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

Associates are all entities over which the Le Vet Group has significant influence, but not control, generally accompanying a shareholding of between 20 per cent. and 50 per cent. of the voting rights.

Application of the equity method to associates

Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Le Vet Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Le Vet Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Le Vet Group's share of losses exceeds its interest in an equity accounted investee, the Le Vet Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Le Vet Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Le Vet Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1.8 ***Non-derivative financial instruments***

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, payables to related parties and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. A provision for impairment of trade receivables is established when there is objective evidence that the Le Vet Group will not be able to collect all amounts due. The amount of the provision is recognised in the income statement in selling, general and administrative expenses.

Payables to related parties and trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

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 Le Vet's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

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 using the effective interest method.

1.9 ***Property, plant and equipment***

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Le Vet Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- Plant & Fixtures/Motor Vehicles – 5 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.10 ***Business combinations***

Acquisitions prior to 1 January 2014 (date of transition to IFRSs)

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The Le Vet Group elected not to restate business combinations that took place prior to 1 January 2014.

1.11 ***Intangible assets and goodwill***

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but material goodwill balances are tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on development activities is capitalised as an intangible asset if the product or process is technically and commercially feasible and the Le Vet Group intends to, and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Le Vet Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill is systematically tested for impairment at each balance sheet date. The estimated useful lives are as follows:

- capitalised development costs – 5 years

1.12 ***Dividends***

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

1.13 ***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 cost 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.

1.14 ***Impairment excluding inventories and deferred tax assets***

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through consolidated statement of profit or loss.

1.15 ***Employee benefits***

Pensions – Defined contribution plans

Le Vet participates in a defined contribution post-employment benefit plan under which it pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

1.16 ***Revenue recognition***

Revenue is earned by the sale of veterinary pharmaceutical products, the rendering of services to customers including the sale of dossiers and re-charge of registration fees, royalty income on products sold under licence and distribution fees earned from customers with exclusive distribution rights for product.

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

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

Rebates, deductions and discounts are provided for in the same period as the related sales are recorded, and are recognised when reliable estimates can be made of relevant deductions and all relevant obligations have been fulfilled, such that the earnings process is regarded as being complete. Le Vet estimates the quantity and value of goods which may ultimately be returned at the point of sale. The return accruals are based on actual experience over the preceding 12 months for established products. For newly launched products, Le Vet use rates based on our experience with similar products or a predetermined percentage.

Revenue from third party manufacturing consists principally of the production of goods to customer specification together with the provision of technical services. Revenues from third party manufacturing are recognised upon completion of the work order, either the completion and agreed delivery of the product, or upon full provision of the service.

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

1.17 ***Expenses***

Operating lease payments

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

Finance income and expenses

Finance expenses comprise interest payable and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Finance income comprises interest receivable on funds invested, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

1.18 ***Taxation***

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet 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.

1.19 ***Adopted IFRS not yet applied***

There are a number of new standards and amendments to existing standards currently in issue but not yet effective, including three significant standards:

- IFRS 9 Financial Instruments.
- IFRS 15 Revenue from Contract with Customers.
- IFRS 16 Leases.

IFRS 9 and IFRS 15 are now expected to be effective for Dechra Pharmaceuticals PLC for the financial year ended 30 June 2019 with IFRS 16 effective for the financial year ended 30 June 2020. Given the date of adoption by Dechra Pharmaceuticals PLC, Dechra Pharmaceuticals PLC's directors have not yet quantified the impact of these standards on the historical financial information of Le Vet.

2. Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocated resources to and assesses the performance of the operating segments of an entity. The Le Vet Group has determined that its chief operating decision maker is the Executive Directors of the Le Vet Group. The Le Vet Group considers that it only has one operating segment being the sale of veterinary pharmaceutical products to its distributors.

Revenue from external customers for products and services

	2014	*2015*	*2016*
	€	€	€
Sale of goods	11,625,952	15,092,992	21,982,696
Rendering of services	320,924	195,000	623,258
Royalties	198,626	237,639	258,464
Distributions	100,000	213,261	348,505
Total revenues	12,245,502	15,738,892	23,212,923

Revenue from external customers by geographic areas

	2014	*2015*	*2016*
	€	€	€
Netherlands	2,469,583	1,924,626	3,285,231
Germany	2,863,217	2,068,232	3,600,508
France	1,835,786	3,064,862	3,885,134
Spain	1,032,495	1,507,552	1,500,925
Rest of Europe	4,044,421	7,173,620	10,941,125
Total revenues	12,245,502	15,738,892	23,212,923

All non-current assets relate to the Netherlands region in all periods.

Revenues from one customer of the Le Vet Group represented €3,496,124 of the total Le Vet Group's revenue in the year ended 31 December 2016 *(2015: €1,700,213; 2014: €818,275)*.

3. Profit before taxation

Included in profit/loss are the following:

	2014	*2015*	*2016*
	€	€	€
Depreciation	49,693	47,287	53,106
Amortisation	442,056	505,440	981,972
Operating lease rentals	52,530	52,530	52,530
Inventory recognised as an expense	6,351,685	8,807,677	11,254,733
Royalty payments to AST Beheer	1,784,054	2,153,278	4,973,089
Auditors remuneration	7,586	7,319	17,500

4. Staff numbers and costs

The average number of persons employed by the Le Vet Group (including directors) during the year, analysed by category, was as follows:

	Number of employees		
	2014	*2015*	*2016*
Administration	2	2	2

The aggregate payroll costs of these persons were as follows:

	€	€	€
Wages and salaries	175,690	216,031	252,862
Social security costs	11,391	9,487	12,612
Contributions to defined contribution plans	3,332	3,458	3,770
	190,413	228,976	269,244

Payroll costs are recognised in the following line items in the income statement:

	€	€	€
Selling, general and administrative expenses	190,413	228,976	269,244

5. Finance income and expense

Recognised in profit or loss

	2014 €	*2015* €	*2016* €
Finance income			
Interest income deposit	1,472	2,250	760
Interest on related party balances	26,660	32,976	46,151
Other	211	3,260	2,622
Total finance income	28,343	38,486	49,533
Finance expense			
Interest on financial liabilities at amortised cost	7,222	5,027	4,340
Net foreign exchange losses	–	–	6,893
Total finance expense	7,222	5,027	11,233

No borrowing costs have been capitalised during any of the historic reporting periods.

6. Taxation

Recognised in the income statement

	2014 €	*2015* €	*2016* €
Current tax expense			
Current year NL corporation tax	(66,283)	(186,012)	(162,277)
Total current tax	(66,283)	(186,012)	(162,277)
Deferred tax			
Intangible asset timing differences	(84,003)	(253,365)	(357,114)
Adjustment in respect of prior years	(61,992)	–	–
Total deferred tax	(145,995)	(253,365)	(357,114)
Income tax expense	(212,278)	(439,377)	(519,391)

Reconciliation of effective tax rate

The tax on the Le Vet Group's profit before taxation differs from the standard rate of NL corporation tax of 25 per cent. *(2015: 25 per cent.; 2014: 25 per cent.)*. The differences to this rate are explained below:

	2014	*2015*	*2016*
	€	€	€
Profit for the year	504,517	1,527,754	1,778,955
Total tax expense	212,278	439,377	519,391
Profit before taxation	716,795	1,967,131	2,298,346
Tax using the NL corporation tax rate of 25% *(2015: 25%; 2014: 25%)*	(179,199)	(491,783)	(574,587)
Effect of 20% rate for income €200,000	10,000	10,000	10,000
Non-deductible expenses	(1,161)	(1,233)	(1,206)
Tax exempt investments	–	827	479
Participation exemption	20,074	42,812	45,923
Adjustment in respect of prior years	(61,992)	–	–
Total tax expense	(212,278)	(439,377)	(519,391)

7. Earnings per share

Earnings per ordinary share has been calculated by dividing the profit attributable to equity holders of the parent after taxation for each financial period by the weighted average number of ordinary shares in issue during the period.

	2014	*2015*	*2016*
	€	€	€
Basic earnings per share	18.78	56.87	66.22

The calculation of basic earnings per share is based upon:

	2014	*2015*	*2016*
	€	€	€
Earnings for basic earnings per share	504,517	1,527,754	1,778,955

		Number	
	2014	*2015*	*2016*
Weighted average number of ordinary shares for basic earnings per share	26,864	26,864	26,864

8. Property, plant and equipment

	Plant & Fixtures €	*Motor vehicles* €	*Assets under construction* €	*Total* €
Cost				
Balance at 1 January 2014	40,881	210,985	–	251,866
Additions	–	–	2,500	2,500
Balance at 31 December 2014	40,881	210,985	2,500	254,366
Balance at 1 January 2015	40,881	210,985	2,500	254,366
Additions	11,805	84,849	–	96,654
Disposals	–	(87,382)	(2,500)	(89,882)
Balance at 31 December 2015	52,686	208,452	–	261,138
Balance at 1 January 2016	52,686	208,452	–	261,138
Additions	6,835	175,000	–	181,835
Balance at 31 December 2016	59,521	383,452	–	442,973
Depreciation and impairment				
Balance at 1 January 2014	18,179	49,264	–	67,443
Depreciation charge for the year	9,297	40,396	–	49,693
Balance at 31 December 2014	27,476	89,660	–	117,136
Balance at 1 January 2015	27,476	89,660	–	117,136
Depreciation charge for the year	6,081	41,206	–	47,287
Disposals	–	(69,800)	–	(69,800)
Balance at 31 December 2015	33,557	61,066	–	94,623
Balance at 1 January 2016	33,557	61,066	–	94,623
Depreciation charge for the year	7,076	46,030	–	53,106
Balance at 31 December 2016	40,633	107,096	–	147,729
Net book value				
At 1 January 2014	22,702	161,721	–	184,423
At 31 December 2014 and 1 January 2015	13,405	121,325	2,500	137,230
At 31 December 2015 and 1 January 2016	19,129	147,386	–	166,515
At 31 December 2016	18,888	276,356	–	295,245

Depreciation and impairment charge

The depreciation and impairment charge is recognised in the following line items in the income statement:

	2014 €	*2015* €	*2016* €
Selling, General and Administrative expenses	49,693	47,287	53,106

All motor vehicles recognised in Property, plant and equipment as at 31 December 2016 will be carved out of Le Vet as part of the transaction.

9. Intangible assets

	Goodwill	*Development costs*	*Total*
	€	€	€
Cost			
Balance at 1 January 2014	24,453	3,405,960	3,430,413
Additions	–	778,065	778,065
Balance at 31 December 2014	24,453	4,184,025	4,208,478
Balance at 1 January 2015	24,453	4,184,025	4,208,478
Additions	–	1,518,901	1,518,901
Balance at 31 December 2015	24,453	5,702,926	5,727,379
Balance at 1 January 2016	24,453	5,702,926	5,727,379
Additions	–	2,410,429	2,410,429
Balance at 31 December 2016	24,453	8,113,355	8,137,808
Amortisation and impairment			
Balance at 1 January 2014	2,445	2,166,100	2,168,545
Amortisation for the year	–	442,056	442,056
Balance at 31 December 2014	2,445	2,608,156	2,610,601
Balance at 1 January 2015	2,445	2,608,156	2,610,601
Amortisation for the year	–	505,440	505,440
Balance at 31 December 2015	2,445	3,113,596	3,116,041
Balance at 1 January 2016	2,445	3,113,596	3,116,041
Amortisation for the year	–	981,972	981,972
Balance at 31 December 2016	2,445	4,095,568	4,098,013
Net book value			
At 1 January 2014	22,008	1,239,860	1,261,868
At 31 December 2014 and 1 January 2015	22,008	1,575,869	1,597,877
At 31 December 2015 and 1 January 2016	22,008	2,589,330	2,611,338
At 31 December 2016	22,008	4,017,787	4,039,795

Amortisation and impairment charge

The amortisation and impairment charge is recognised in the following line items in the income statement:

	2014	*2015*	*2016*
	€	€	€
Selling, General and Administrative expenses	442,056	505,440	981,972

10. Investments in subsidiaries, associates and other entities

The Le Vet Group has the following investments in subsidiaries and associates:

Le Vet	*Principal place of business/ Registered office address*	*Class of shares held*	*Ownership 2014*	*2015*	*2016*
Lelypharma Beheer BV	Lelystad	Ordinary shares (equity)	–	–	10%
Regivet BV	s-Gravenhagen	Ordinary shares (equity)	35%	35%	35%
Le Vet BV	Linschoten	Ordinary shares (equity)	100%	100%	100%

The investments above in Lelypharma Beheer B.V. and Regivet B.V. are not expected to be transferred at or after completion of the transaction to the acquirer but have been presented in this historic financial information for the purposes of a complete financial record of the Le Vet Group as at the preparation date.

Associates

The investment in Regivet is deemed an associate investment and equity accounted as per the below. Regivet performs development activities for the Le Vet Group:

	2014 €	*2015* €	*2016* €
Opening carrying amount at 1 January	4,507	84,804	253,561
Share of profit of investments accounted for using the equity method	80,297	168,757	186,174
Dividends received	–	–	(168,000)
Closing carrying amount at 31 December	84,804	253,561	271,735

Other investments

The investment in Lelypharma B.V is accounted for at historic cost as an approximation of the fair value given the proximity of the transaction to the year end. Lelypharma B.V. produces raw materials for use in the sale of Le Vet products.

	2014 €	*2015* €	*2016* €
Lelypharma B.V	–	–	2,101,478

11. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities relate to intangible assets – the table below identifies the deferred tax liabilities in respect of timing differences on the recognition of development costs:

	Assets			*Liabilities*		
	2014 €	*2015* €	*2016* €	*2014* €	*2015* €	*2016* €
Intangible assets	–	–	–	393,967	647,333	1,004,447
Tax liabilities	–	–	–	393,967	647,333	1,004,447
Net tax liabilities	–	–	–	393,967	647,333	1,004,447

Movement in deferred tax during the year

	1 January 2016 €	*Recognised in income* €	*31 December 2016* €
Intangible assets	647,333	357,114	1,004,447

Movement in deferred tax during the prior years

	1 January 2015 €	*Recognised in income* €	*31 December 2015* €
Intangible assets	393,967	253,366	647,333

	1 January 2014 €	*Recognised in income* €	*31 December 2014* €
Intangible assets	247,972	145,995	393,967

12. Inventories

	2014 €	*2015* €	*2016* €
Finished goods	–	136,335	607,739
Raw materials	192,834	211,277	490,929
	192,834	347,612	1,098,668

13. Trade and other receivables

	2014 €	*2015* €	*2016* €
Trade receivables	2,680,254	1,372,624	3,090,333
Receivables due from related parties	1,213,423	1,467,684	2,100,290
VAT receivables	590,017	258,397	464,546
Prepayments	21,418	8,466	89,861
	4,505,112	3,107,171	5,745,030

Receivables due to related parties are interest bearing and repayable on demand.

14. Cash and cash equivalents

	2014 €	*2015* €	*2016* €
Cash and cash equivalents	236,229	1,501,246	852,648

15. Trade and other payables

	2014 €	2015 €	2016 €
Trade payables	1,866,807	699,048	3,084,003
Payables due to related parties	31,006	60,000	1,513,674
Accruals and deferred income	937,188	1,558,322	1,974,138
Social security and other taxes	4,528	4,741	31,383
	2,839,529	2,322,111	6,603,198

Payables due to related parties are interest free and repayable on demand.

16. Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Le Vet Group's other interest-bearing loans and borrowings, which are measured at amortised cost.

	2014 €	2015 €	2016 €
Current liabilities			
Current portion of unsecured bank loans	11,364	–	–
Non-current liabilities			
Non-current portion of unsecured bank loans	18,981	–	–

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity
Bank loan	Euros	6.9%	2015

	Fair value 2014 €	Carrying amount 2014 €	Fair value 2015 €	Carrying amount 2015 €	Fair value 2016 €	Carrying amount 2016 €
Bank loan	30,345	30,345	–	–	–	–

17. Employee benefits

Defined contribution plans

The pension plan is classified as a defined contribution plan, as Le Vet Beheer B.V. pays fixed contributions to the pension fund and will have no further obligation (legal or constructive) to pay further amounts if the fund has insufficient assets to pay all employee benefits relating to current and prior service.

The total expense relating to this plan in the current year was €3,770 *(2015: €3,458; 2014: €3,332)*.

18. Capital and reserves

Share capital

	2014 €	2015 €	2016 €
Allotted, called up and fully paid			
26,864 ordinary shares of €25 each *(2015: 26,864; 2014: 26,864)*	671,600	671,600	671,600

19. Dividends

The following dividends were recognised during the period:

	2014 €	2015 €	2016 €
Dividends	574,950	–	–

The dividend recognised in 2014 was €21.40 per share. No dividends were recognised in 2015 and 2016.

20. Financial instruments and related disclosures

The Le Vet Group's financial instruments comprise cash and cash equivalents, trade receivables, payables to related parties and trade payables and these are disclosed in notes 13 to 15 of these financial statements.

Treasury policy

The Le Vet Group reports in Euros and pays out dividends in Euros. The Board of Directors is responsible for the treasury activities. The Le Vet Group holds a cash account to manage its cash requirements.

Capital management

The capital structure of the Le Vet Group consists of shareholders' equity. The Le Vet Group does not have any external borrowing facilities with an external borrowing facility settled during 2015. Operating cash flow is used to fund investment in new products as well as to make routine investment in capital expenditure, tax payments and dividends.

Financial risk management

The Le Vet Group has exposures to liquidity, market and credit risks as described further below.

Liquidity risk

Liquidity risk is the risk that the Le Vet Group will not have sufficient funds to meet liabilities as they fall due. Cash flows of the Le Vet Group are monitored quarterly and reviewed to ensure appropriate headroom is held to meet cash flow requirements for the next 12 month period. The Le Vet Group meets its liquidity requirements through operating cash flows and has a bank account.

Market risk

Market risk is the risk that changes in market price such as foreign exchange rates or interest rates will affect the Le Vet Group's income.

The Le Vet Group has limited exposure to interest rate risk given no borrowings are held.

Foreign currency transaction exposure arising on normal trade flows is not hedged and the Le Vet Group will match receipts and payments in the relevant foreign currencies as far as possible.

Credit risk

Credit risk is the risk of financial loss to the Le Vet Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Le Vet Group considers its maximum credit risk to be €5,665,169 *(2015: €3,098,705 2014: €4,483,694)*, which is the total carrying value of the Le Vet Group's financial assets excluding cash and cash equivalents.

Cash is only deposited with highly rated banks in line with our treasury policies.

The Le Vet Group offers trade credit to customers in line with the normal course of business.

Our principal customers are pharmaceutical wholesalers and distributors. The failure of a large wholesaler could have a material adverse impact on the Le Vet Group's financial results.

Receivables are written off when management considers the debt to be no longer recoverable.

Fair value of financial assets and liabilities

- Cash and cash equivalents – approximated to the carrying amount
- Receivables and payables – approximated to the carrying amount

As the fair value and carrying value of all financial assets and liabilities are deemed to approximate to the carrying amount.

Credit Risk – Overdue Financial assets

The maximum exposure to credit risk at the balance sheet date by class of financial instrument was;

	2014	*2015*	*2016*
	€	*€*	*€*
Trade and other receivables	4,483,694	3,098,705	5,655,169

The concentration of credit risk for trade receivables at the balance sheet date by geographic region was:

	2014	*2015*	*2016*
	€	*€*	*€*
Netherlands	2,458,397	575,153	2,218,345
Scandinavia	160,340	745,125	726,499
Rest of World	61,517	52,346	145,489
	2,680,254	1,372,624	3,090,333

Credit quality of financial assets and impairment losses

The ageing of trade receivables at the balance sheet date was:

	Gross	*Gross*	*Gross*
	2014	*2015*	*2016*
	€	*€*	*€*
0-30 days	2,600,553	1,085,926	2,872,919
31-60 days	62,738	249,579	161,185
More than 60 days	16,963	37,119	56,229
	2,680,254	1,372,624	3,090,333

No allowance for impairment in respect of trade receivables during any of the years was recognised. A provision for impairment of trade receivables is established when there is objective evidence that the Le Vet Group will not be able to collect all amounts due. No provision was made at 31 December 2014, 2015 or 2016.

Market risk

The Le Vet Group's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments.

31 December 2016

	Euro	*Other*	*Total*
	€	€	€
Cash and cash equivalents	852,648	–	852,648
Trade and other receivables	5,280,484	–	5,280,484
Trade and other payables	(5,271,815)	(100,736)	(5,372,551)
Net exposure	861,317	(100,736)	760,581

31 December 2015

	Euro	*Other*	*Total*
	€	€	€
Cash and cash equivalents	1,501,246	–	1,501,246
Trade and other receivables	2,848,774	–	2,848,774
Trade and other payables	(2,317,370)	–	(2,317,370)
Net exposure	2,032,650	–	2,032,650

31 December 2014

	Euro	*Other*	*Total*
	€	€	€
Cash and cash equivalents	236,229	–	236,229
Trade and other receivables	3,915,095	–	3,915,095
Trade and other payables	(2,835,001)	–	(2,835,001)
Net exposure	1,316,323	–	1,316,323

21. Operating leases

The future aggregate minimum lease payments under non-cancellable operating lease rentals are payable as follows:

	2014	*2015*	*2016*
	€	€	€
No later than one year	52,530	52,530	52,530
Later than one year and no later than five years	210,121	210,121	210,121
Later than five years	258,274	205,743	153,213
	520,925	468,394	415,864

The Le Vet Group leases property for operational purposes. Property leases vary in length up to 10 years. Renewal options are available after the first and second five year periods with no contingent rentals payable.

22. Related parties

As a result of indirect significant influence by the ultimate controlling party of the company, combined with direct ownership by the company, LelyPharma Beheer B.V. and Produlab Pharma Beheer B.V. are related parties of the company.

Transactions with key management personnel

Directors of Le Vet and their immediate relatives control 100 per cent. of the voting shares of Le Vet. None of the directors of Le Vet are remunerated directly by the Le Vet Group, however, management fees are paid to ACW Pharma B.V. and AST Beheer B.V. in respect of the services to the Le Vet Group provided by Mr A. S. Tesink and are disclosed in the table below.

Other related party transactions

Other related party transactions include sales and purchases made with AST Farma B.V., LelyPharma Beheer B.V. and Produlab Pharma B.V. in respect of product sales and purchases. Royalties were paid by AST Farma B.V. to Le Vet in relation to the sale of products registered by AST Beheer B.V. on behalf of Le Vet – these will no longer be paid following completion as detailed in note 25.

2016

	Sales €	*Royalties to* €	*Royalties from* €	*Management fee* €	*Research & Development* €	*Purchases* €
Transactions with AST Farma B.V.	1,856,078	–	–	–	–	353,412
Purchases – LelyPharma Beheer B.V.	–	–	–	–	–	4,915,541
Purchases – Produlab Pharma Beheer B.V.	–	–	–	–	–	5,282,681
Payments to AST Beheer B.V.	–	4,962,000	–	–	1,750,000	–
Management fee to AST Beheer B.V.	–	–	–	100,000	–	–
Rent payments to AST Beheer B.V.	–	–	–	–	–	53,000
Management fee to ACW Pharma B.V.	–	–	–	277,768	–	–
	1,856,078	4,962,000	–	377,768	1,750,000	10,551,634

2015

	Sales €	*Royalties to* €	*Royalties from* €	*Management fee* €	*Research & Development* €	*Purchases* €
Transactions with AST Farma B.V.	1,385,000	–	233,000	–	–	268,091
Purchases – LelyPharma Beheer B.V.	–	–	–	–	–	2,623,616
Purchases – Produlab Pharma Beheer B.V.	–	–	–	–	–	5,090,069
Payments to AST Beheer B.V.	–	2,140,000	–	–	1,000,000	–
Management fee to AST Beheer B.V.	–	–	–	30,000	–	–
Rent payments to AST Beheer B.V.	–	–	–	–	–	53,000
Management fee to ACW Pharma B.V.	–	–	–	199,303	–	–
	1,385,000	2,140,000	233,000	229,303	1,000,000	8,034,776

2014

	Sales €	*Royalties to* €	*Royalties from* €	*Management fee* €	*Research & Development* €	*Purchases* €
Transactions with AST Farma B.V.	997,000	–	197,000	–	–	216,294
Purchases – LelyPharma Beheer B.V.	–	–	–	–	–	959,481
Purchases – Produlab Pharma Beheer B.V.	–	–	–	–	–	3,982,898
Payments to AST Beheer B.V.	–	1,779,000	–	–	900,000	–
Rent payments to AST Beheer B.V.	–	–	–	–	–	36,000
Management fee to ACW Pharma B.V.	–	–	–	160,650	–	–
	997,000	1,779,000	197,000	160,650	900,000	5,194,673

	2014 Receivables outstanding €	*Payables outstanding* €	*2015 Receivables outstanding* €	*Payables outstanding* €	*2016 Receivables outstanding* €	*Payables outstanding* €
Management fee – ACW Pharma	–	31,006	–	60,000	–	213,674
Receivable from ACW Pharma	1,213,423	–	1,467,684	–	2,100,290	–
Payable to AST Beheer	–	–	–	–	–	1,300,000
	1,213,423	31,006	1,467,684	60,000	2,100,290	1,513,674

Royalties paid by Le Vet to AST Beheer in relation to the sale of products AST Beheer has registered on behalf of Le Vet will no longer be paid on completion with licences being transferred to AST Pharma.

23. Critical judgements in applying the Le Vet Group's accounting policies and Key Sources of Estimation Uncertainty

In the process of applying the Le Vet Group's accounting policies, the Directors have made the following judgements and estimates that have the most significant effect on the amounts recognised in the financial statements. The key sources of estimation uncertainty which may cause a material adjustment to the carrying amount of assets and liabilities are also discussed below:

Taxation

The Le Vet Group recognised deferred tax assets and liabilities based upon future taxable income and the expected recoverability of the balance. The estimate will include assumptions regarding future income streams of the Le Vet Group and the future movement in corporation tax rates. Management will assess on an annual basis the recoverability of any deferred tax asset balances held on the balance sheet through a review of future forecasts and the offset of any asset against future taxable profits.

Development costs

Development costs are capitalised once it is highly probable that regulatory approval will be received. Development costs are incurred by a third party and invoiced to the Le Vet Group. The key judgement applied is in determining at what point regulatory approval is highly probable and therefore capitalisation should commence.

24. Transition to IFRS

This is the Le Vet Group's first consolidated financial information prepared in accordance with IFRS. The Le Vet Group did not previously prepare a consolidated set of financial statements and therefore this historic financial information is prepared based on IFRS from the date of transition (1 January 2014) and for the years ended 31 December 2016, 31 December 2015 and 31 December 2014. The accounting policies set out in note 1 have been applied consistently for all periods.

25. Subsequent events

On 29 June 2017, Le Vet Beheer B.V acquired a 33 per cent. holding in Bridgefarma B.V. for an initial €1,160,833 which increased subsequently to €1,250,000 due to earn out arrangements.

As part of the transaction, certain non-operational assets will be transferred out of Le Vet Beheer B.V. to the sellers:

- Investments held by Le Vet Beheer B.V as at 31 December 2016:
  - 10 per cent. of the shares in LelyPharma Beheer B.V. of €2,101,478;
  - 33.3 per cent. of the shares in Bridgefarma B.V of €Nil and;
  - 35 per cent. of the shares in Regivet B.V of €271,735.
  - The value attributable to these assets in the Share Purchase Agreement are €1,880,000, €1,250,000 and €487,826, respectively;
- Motor vehicles held by Le Vet Beheer B.V as at 31 December 2016 for €276,356 personally used by the seller and included within PP&E of the entities in the historic financial information prepared, will be transferred out for a value of €250,000;
- A house acquired on 6 March 2017 by Le Vet Beheer B.V, will be transferred out for a value of €561,750.

PART V

UNAUDITED PRO FORMA FINANCIAL INFORMATION

Section A: Unaudited Pro Forma Statement of Net Assets for the Enlarged Group

The unaudited pro forma statement of net assets for the Enlarged Group has been prepared to illustrate how the Acquisition might have affected the consolidated net assets of the Group had the Acquisition occurred on 30 June 2017.

The statement has been prepared for illustrative purposes only in accordance with Listing Rule 13.3.3 and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Enlarged Group's actual financial position or results following the Acquisition.

The unaudited pro forma statement of net assets has been prepared on a basis consistent with (i) the accounting policies of Dechra Pharmaceuticals PLC used in preparing its financial statements for the year ended 30 June 2017, (ii) the notes set out below and (iii) in accordance with the requirements of item 13.3.3R of the Listing Rules of the UKLA.

The unaudited pro forma statement of net assets includes the historical financial information for Le Vet Beheer B.V as at 31 December 2016. The Reporting Accountant has issued a disclaimer of opinion which can be seen in Section C of Part IV and notes 'given the size of the company and its operations, Le Vet Beheer B.V. did not implement and maintain appropriate internal controls to ensure the completeness of underlying accounting records. As a result, we have been unable to obtain sufficient appropriate audit evidence in relation to completeness of revenue, purchases and related items for the three years ended 31 December 2016 included in the Financial Information Table.'

	Dechra 30 June 17 £m (Note 1)	Le Vet 31 Dec 16 £m (Note 2)	AST Farma 31 Dec 16 £m (Note 2)	Equity Placing £m (Note 3)	Intragroup Eliminations and Acquisition Adjustments £m (Note 4)	Enlarged Group £m (Note 5)
ASSETS						
Non-current assets						
Intangible assets	396.3	3.5		0.0	293.8	693.6
Property, plant and equipment	45.1	0.3	0.1		(0.2)	45.3
Investment in equity-accounted investees		0.2			(0.2)	–
Other financial assets		1.8				1.8
Investments	10.9					10.9
Deferred Tax	0.8					0.8
	453.1	5.8	0.1	0.0	293.4	752.4
Current assets						
Inventories	56.5	0.9	2.7			60.1
Tax receivable		0.4				0.4
Trade and other receivables	67.3	4.5	1.5		(0.2)	73.1
Cash and cash equivalents	61.2	0.7	0.1	102.4	(100.0)	64.4
	185.0	6.5	4.3	102.4	(100.2)	198.0
Assets held for resale						
Total assets	638.1	12.3	4.4	102.4	193.2	950.4
Liabilities						
Current liabilities						
Trade and other payables	(61.3)	(5.6)	(3.2)		(0.7)	(70.8)
Tax liabilities	(2.5)		(0.1)			(2.6)
Borrowings	(1.0)					(1.0)
Deferred and contingent consideration	(1.6)					(1.6)
	(66.4)	(5.6)	(3.3)	0.0	(0.7)	(76.0)
Non-current liabilities						
Borrowings	(180.2)				(126.8)	(307.0)
Deferred and contingent consideration	(33.4)					(33.4)
Deferred tax liabilities	(49.3)	(0.9)				(50.2)
Provisions	(3.2)					(3.2)
Employee benefit obligations	(3.0)					(3.0)
	(269.1)	(0.9)	0.0	0.0	(126.8)	(396.8)
Total liabilities	(335.5)	(6.5)	(3.3)	0.0	(127.5)	(472.8)
Net assets	302.6	5.8	1.1	102.4	65.7	477.6

Notes

1. Dechra's financial information as at 30 June 2017 has been extracted, without material adjustment, from Dechra's audited published financial information for the year ended 30 June 2017.

2. Le Vet and AST Farma's financial information as at 31 December 2016 has been extracted, without material adjustment, from the historical financial information in Sections B and D of Part IV of this Circular.

   The unaudited pro forma statement of net assets includes the historical financial information for Le Vet Beheer B.V as at 31 December 2016. The Reporting Accountant has issued a disclaimer of opinion which can be seen in Section C Part IV of this Circular and notes 'given the size of the company and its operations, Le Vet Beheer B.V. did not implement and maintain appropriate internal controls to ensure the completeness of underlying accounting records. As a result, we have been unable to obtain sufficient appropriate audit evidence in relation to completeness of revenue, purchases and related items for the three years ended 31 December 2016 included in the Financial Information Table'.

3. An equity placing took place on the 25 January 2018. The total proceeds to be received by Dechra were £105.0 million less commission of £2.6 million resulting in net cash received of £102.4 million.

   The placing shares are expected to be issued and admitted to listing and trading on 30 January 2018. In the event that the acquisition does not complete, the net cash proceeds can be used for general corporate purposes, future acquisitions and working capital.

4. (a) Motor Vehicles of £0.2 million within Le Vet will not be transferred to Dechra's ownership and have been eliminated from the enlarged group.

   (b) The Investment in equity-accounted investees and investments of £0.2 million within Le Vet will not be transferred to Dechra ownership and has been eliminated from the enlarged group.

   (c) Registrations of licences within a related company will be transferred to Dechra ownership at cost (£Nil) and have been added to the enlarged group. The fair value of the licences will be assessed as part of the wider fair value exercise post the completion of the Acquisition.

   (d) The loan of £1.1 million from Le Vet's current parent company, AST Beheer, will be repaid as part of the total consideration for the Acquisition as it is part of the net debt adjustment set out in the Share Purchase Agreement.

   (e) Intra group eliminations of £0.2 million reflect adjustments to remove trading balances as of 30 June 2017 between Le Vet, AST Farma and Dechra.

   Adjustments arising as a result of the Acquisition are as follows:

   (f) The total consideration is set out below:

	£m
Equity Consideration	74.6
Cash Consideration	226.8
Total Consideration	301.4

   The Cash Consideration is £226.8 million. £100 million will be funded by the equity placing of £105.0 million (net of commission of £2.6 million) with the remainder coming from a drawdown of £128.9 million of a new term loan facility of £350.0 million at the time of the completion of the acquisition.

   The Equity Consideration has been calculated with reference to the middle market closing price of an Ordinary Share for the 30 day period up to and including 24 January 2018 resulting in an average share price of 2031p.

   The total consideration has been calculated with reference to the criteria set out within the Share Purchase Agreement including adjustments for net debt and working capital. Consequently, the total consideration payable at the time of completion will be different to the total consideration included in this unaudited pro forma financial information.

   (g) The adjustment to goodwill has been calculated as follows:

	£m
Total consideration	301.4
Less net assets acquired	
– Le Vet Beheer B.V. net assets	(5.8)
– AST Farma, B.V. net assets	(1.1)
– Motor vehicles eliminated from the enlarged group	0.2
– Investment in equity-accounted investees and investment	0.2
– The loan eliminated as part of the total consideration cash	(1.1)
Total net assets acquired	(7.6)
Goodwill adjustment	293.8

   The acquisition has been accounted for using the acquisition method of accounting. The excess of consideration over the fair value of net assets has been reflected in intangible assets as goodwill.

   A fair value exercise will be completed post completion of the acquisition; therefore no account has been taken of the fair value adjustments.

   (h) Transaction costs of £2.0 million are expected to be incurred, and will be charged to the income statement. The drawdown of £128.9 million is gross of £2.1 million of the debt arrangement fees will be capitalised and amortised over the life of the debt.

5. No adjustment has been made to reflect the trading results of the enlarged group since 30 June 2017 for Dechra or since 31 December 2016 for Le Vet and AST Farma.

PART V

UNAUDITED PRO FORMA FINANCIAL INFORMATION

Section B: Report on the Unaudited Pro Forma Statement of Net Assets for the Enlarged Group

The Directors
Dechra Pharmaceuticals PLC
24 Cheshire Avenue
Cheshire Business Park
Lostock Gralam
Northwich
CW9 7UA

Investec Bank plc
2 Gresham Street
London EC2V 7QP

26 January 2018

Dear Sirs

Dechra Pharmaceuticals PLC (the "Company")

We report on the pro forma financial information (the "**Pro Forma Financial Information**") set out in section A of Part V of the Company's circular dated 26 January 2018 (the "**Circular**") which has been prepared on the basis described in the notes to the Pro Forma Financial Information, for illustrative purposes only, to provide information about how the proposed acquisition of AST Farma B.V. and Le Vet Beheer B.V. might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 30 June 2017. This report is required by item 13.3.3R of the Listing Rules of the UK Listing Authority (the "**Listing Rules**") and is given for the purpose of complying with that Listing Rule and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro Forma Financial Information in accordance with or item 13.3.3R of the Listing Rules.

It is our responsibility to form an opinion, as required by item 13.3.3R of the Listing Rules as to the proper compilation of the Pro Forma Financial Information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

PricewaterhouseCoopers LLP, 1 Embankment Place, London, WC2N 6RH
T: +44 (0) 2075 835 000, F: +44 (0) 2072 124 652, www.pwc.co.uk

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART VI

ADDITIONAL INFORMATION

1. Responsibility

The Company and the Directors, whose names appear on page 7 of this Circular, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. The Company

2.1 The Company was incorporated and registered in England and Wales on 13 May 1997 with registered number 03369634 under the Companies Act 1985 as a private limited company with the name Broomco (1283) Limited. On 18 July 1997, it changed its name to Dechra Holdings Limited. On 30 June 2000, it re-registered as a public limited company and changed its name to Dechra Pharmaceuticals PLC.

2.2 The registered and head office of the Company is at 24 Cheshire Avenue, Cheshire Business Park, Lostock, Gralam, Northwich CW9 7UA (telephone number 01606 814 730).

2.3 The principal legislation under which the Company operates is the 2006 Act.

3. Ordinary Share Capital

The following table sets out the issued and fully paid share capital of the Company as at 25 January 2018 (being the latest practicable date before the publication of this document) and as it will be (assuming that no options or awards granted under the Company's share schemes are exercised between the date of this document and Admission of the New Dechra Shares) following the allotment, issue and Admission of 8,792,577 New Dechra Shares pursuant to the Acquisition and the Placing. The ISIN for the New Dechra Shares will be GB0009633180.

	Nominal value	*Issued and fully paid*
Number of Ordinary Shares prior to Admission of the New Dechra Shares	£934,916.70	93,491,670
Proposed number of Ordinary Shares upon Admission of the New Dechra Shares	£1,022,842.47	102,284,247

4. Directors' Interests

4.1 *Directors' holdings of Ordinary Shares*

4.1.1 As at 25 January 2018 (being the latest practicable date before the publication of this document), the interests (all of which are beneficial unless stated otherwise) of the persons discharging managerial responsibilities and their connected persons in the share capital of the Company which have been notified to the Company pursuant to Chapter 3 of the DTRs were as follows:

Director	*Number of Ordinary Shares held prior to Admission of the New Dechra Shares*	*Percentage of issued share capital held prior to Admission of the New Dechra Shares*	*Proposed percentage of the share capital held upon Admission of the New Dechra Shares**
Tony Rice	40,000	0.043%	0.039%
Ian Page	737,232	0.789%	0.721%
Richard Cotton	21,318	0.023%	0.021%
Tony Griffin	64,320	0.069%	0.063%
Ishbel Macpherson	5,848	0.006%	0.006%
Julian Heslop	10,000	0.011%	0.010%
Lawson Macartney	Nil	N/A	N/A

*assuming that no options or awards granted under the Company's share schemes are exercised between the date of this document and Admission of the New Dechra Shares

4.1.2 Taken together, the combined percentage interest of the Directors of the Company in the voting rights in respect of the issued Ordinary Share capital at 25 January 2018 (being the latest practicable date before the publication of this document) was 0.94 per cent.

4.1.3 Taken together, the combined percentage interest of the Directors of the Company in the voting rights in respect of the issued Ordinary Share capital following Admission of the New Dechra Shares will be approximately 0.86 per cent.

4.1.4 The Directors of the Company have no interest in the shares of Dechra's Subsidiaries.

4.2 *Directors' share options*

The Company operates the Shareholder approved Long Term Incentive Plan 2017 ("**LTIP 2017**"), as well as the legacy Long Term Incentive Plan 2008 ("**LTIP 2008**") and a Save as You Earn share scheme (together the "**Share Schemes**"). As at 25 January 2018 (being the latest practicable date before the publication of this document), the total following options over Ordinary Shares have been granted to the Executive Directors under the Share Schemes:

Director	*Note*	*Status (as relevant)*	*First exercisable date*	*Last exercisable date*	*Option price*	*No.*
Ian Page	LTIP	Unvested	15 September 2018	Note 1	Nil	90,721
	LTIP	Unvested	19 September 2019	Note 1	Nil	73,260
	SAYE		1 December 2020	1 June 2021	16.46	1,093
Richard Cotton	LTIP (Recruitment Award)	Vested	3 January 2018	3 July 2018	Nil	21,033
	LTIP (Recruitment Award)	Unvested	15 September 2018	Note 2	Nil	21,033
	SAYE		1 December 2020	1 June 2021	16.46	1,093
Tony Griffin	LTIP	Unvested	15 September 2018	Note 1	Nil	22,641
	LTIP	Unvested	19 September 2019	Note 1	Nil	20,858

Note 1: The Long Term Incentive Plan performance period starts on 1 July in the year of grant and ends on 30 June three years later. The options shall be exercisable in respect of the Vested Shares for a period of 6 months beginning with the date on which the options vest, excluding any closed periods.

Note 2: The same performance period and exercise period applies with respect to the LTIP granted on 15 September 2015.

5. Directors' Service Contracts, Letters of Appointment and Remuneration

The Company has entered into the following contracts or, as appropriate, letters of appointment with its Directors.

5.1 *Service Contracts of the Executive Directors*

The Executive Directors have entered into service contracts with the Company. Details of these service contracts are set out below.

Executive Director	*Commencement date*	*Basic annual salary*	*Notice period Director*	*Notice period Company*
Ian Page	1 September 2008	£500,000	6 months	12 months
Richard Cotton	3 January 2017	£358,750	6 months	12 months
Tony Griffin	1 November 2012	£303,910*	6 months	12 months

*Tony Griffin's remuneration is paid in euros but reported in Sterling for the purposes of this table. The exchange rate used for this purpose was 1.1271.

In addition, to their basic salary, each of the Executive Directors is entitled to a fully expensed car, medical cover and life assurance. The Company also makes pension contributions on behalf of the Executive Directors equating to no more than 14 per cent. of pensionable salary for each Executive Director per annum.

Each service contract can be terminated on 12 months' notice by the Company and 6 months' notice by the Executive Director. 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 Executive 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.

5.2 *Letters of Appointment of the Non-Executive Directors*

The Non-Executive Directors have entered into letters of appointment with the Company. Details of these letters are set out below.

Non-Executive Director	*Commencement date*	*Notice period*	*Date of expiry of current appointment period*
Tony Rice	5 May 2016	3 months	next AGM in 2018
Julian Heslop	1 January 2013	3 months	next AGM in 2018
Lawson Macartney	1 December 2016	3 months	next AGM in 2018
Ishbel Macpherson	1 February 2013	3 months	next AGM in 2018

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

5.3 *Remuneration*

The table below sets out the total remuneration for each of the Directors

	Basic Salary (£000)	*Benefits (£000)*	*Annual Bonus**	*LTIPs**	*Pension (£000)*
Executive Directors					
Ian Page	500	54	up to 100%	200%	70
Richard Cotton	359	10	up to 100%	150%	50
Tony Griffin	304**	19	up to 100%	100%	40
Non-Executive Directors					
Tony Rice	102	–	–	–	–
Ishbel Macpherson	58	–	–	–	–
Julian Heslop	55	–	–	–	–
Lawson Macartney	50	–	–	–	–

*percentage of basic salary subject to achievement of maximum performance.

** Tony Griffin's remuneration is paid in euros but reported in Sterling for the purposes of this table. The exchange rate used for this purpose was 1.1271.

The total emoluments receivable by the Directors will not be varied as a consequence of the Acquisition.

5.4 ***Conflict of Interests***

No Director has any interest in any transaction which is or was unusual in its nature or conditions or is or was significant in relation to the business of the Group and which was affected by the Company during the current or immediately preceding financial year or during any earlier financial year and remains in any respect outstanding or underperformed.

6. Substantial Interests in Shares

As at 25 January 2018 (being the latest practicable date prior to publication of this document), the following persons have notified the Company that they are interested in more than 3 per cent. of the issued ordinary share capital:

Name	*Number of Ordinary Shares*	*Percentage of issued ordinary share capital prior to Placing*	*Proposed number of Placing Shares*	*Proposed number of Ordinary Shares upon Admission of the Placing Shares*	*Percentage of ordinary share capital upon Admission of the Consideration Shares*
Fidelity Management & Research	8,479,338	9.07%	775,386	9,254,724	9.05%
Standard Life Aberdeen	7,756,187	8.30%	104,051	7,860,238	7.68%
BlackRock Inc	6,359,810	6.80%	220,318	6,580,128	6.43%
Aviva plc	3,920,704	4.19%	Nil	3,920,704	3.83%
AEGON	3,299,410	3.53%	194,127	3,493,537	3.42%
The Capital Group Companies, Inc	3,260,018	3.49%	Nil	3,260,018	3.19%
Legal & General Group	3,196,563	3.42%	150,000	3,346,563	3.27%
Schroders	3,149,350	3.37%	165,000	3,314,350	3.24%
Old Mutual	3,113,412	3.33%	Nil	3,113,412	3.04%
Royal London Mutual Assurance Group	3,106,534	3.32%	295,745	3,402,279	3.33%

7. Material Contracts

The following is a summary of each material contract (other than contracts entered into in the ordinary course of business) to which the Company (or any member of the Group), AST Farma or Le Vet have entered into within the two years immediately preceding the date of this document.

7.1 ***Dechra***

7.1.1 *Share Purchase Agreement*

The Share Purchase Agreement, the principal terms of which are set out in Part III (*Summary of the Acquisition and New Facility Agreement*) of this document.

7.1.2 *Placing Agreement*

The Company and Investec entered into a sponsor and placing agreement on 24 January 2018 ("Placing Agreement"). Pursuant to the terms and conditions contained in the Placing Agreement, the Company has appointed Investec as: (i) sole bookrunner and underwriter in connection with the Placing; and (ii) sponsor in connection with the Acquisition and Admission. Subject to the terms and conditions of the Placing Agreement, Investec has procured, as agent for the Company, subscribers for the Placing Shares. The Placing has been fully underwritten by Investec. The obligations of Investec as bookrunner and underwriter to the Placing under the Placing Agreement are subject to certain conditions being satisfied. The Placing is conditional, *inter alia*, upon: (i) the Company complying with its obligations under the Placing Agreement which fall to be fulfilled on or prior to Placing Admission; (ii) the Share Purchase Agreement having been duly entered into and not having become capable of termination; (iii) no Major Default or breach of a Material Representation (each as defined therein) having occurred under the New Facility Agreement; (iv) Placing Admission becoming effective by not later than 8.00 a.m. on 30 January 2018 (or such later date as the Company and Investec may agree, not being later than 8.00 a.m. on 6 February 2018); and (v) the Placing Agreement having become unconditional in all respects and not having been terminated in accordance with its terms. Investec has the ability, on giving notice to the Company, to terminate the Placing Agreement in certain specific circumstances. The Placing Agreement provides for the payment of (i) a commission of 2.5 per cent. of the amount equal to the Placing Price multiplied by the aggregate number of Placing Shares; (ii) a corporate finance fee by the Company to Investec of £250,000 (plus applicable VAT); and (iii) all fees, costs and expenses of, or incidental to, the Placing, the Acquisition and the other arrangements referred to in or contemplated by the Placing Agreement, including Investec's legal fees, out of pocket expenses and disbursements (in each case plus VAT where applicable). The Company has given customary warranties and undertakings to Investec and has agreed to indemnify Investec and certain indemnified persons connected with Investec against certain liabilities. The Company has further agreed that, between the date of the Placing Agreement and the date falling 90 days after (but including) the date of the Placing Admission, it will not, without the prior written consent of Investec, (i) enter into any commitment or agreement or arrangement which is material in the context of the business or affairs of the Group taken as a whole and which would require to be announced; and/or (ii) subject to certain limited exceptions, allot, issue, offer, sell, transfer or create any Ordinary Shares or any interest in Ordinary Shares, or agree to do any of such things.

7.1.3 *Existing Facility Agreement*

On 25 July 2017, the Company entered into the Existing Facility Agreement which refinanced its then £205.0 million revolving credit facility (RCF). The committed facilities under the Existing Facility Agreement are a five year multi-currency RCF with two one year extension options for £235.0 million, through seven banks: Bank of Ireland, BNP Paribas, Fifth Third, HSBC, Lloyds, Raiffeisen and Santander. The Existing Facility Agreement has an accordion facility of a further £125.0 million. There are two covenants governing the Existing Facility Agreement: (i) leverage: Net Debt to underlying EBITDA not greater than 3:1 (30 June 2017: 1.4) compared to the previous covenant of 2.5:1; and (ii) interest cover: underlying EBITDA to Net Finance Charges not less than 4:1, unchanged from the previous facility (30 June 2017: 21.2). There is a non-utilisation fee of 35.0 per cent. of the applicable margin. The margin over LIBOR (or equivalent) ranges from 1.3 per cent. for leverage below 1.0 times, up to 2.2 per cent. for leverage above 2.5 times.

7.1.4 *New Facility Agreement*

The New Facility Agreement details of which are set out in paragraph 2 of Part III (*Summary of the Acquisition and New Facility Agreement*) of this document.

7.1.5 *Putney Acquisition Agreement*

On 14 March 2016, Dechra Holdings US Inc and Dechra US Merger Inc. entered into an agreement and plan of merger with Putney, Inc ("**Putney Acquisition Agreement**"), which completed on 22 April 2016. Under the terms of the Putney Acquisition Agreement, the Group agreed to acquire the entire issued share capital of Putney, Inc for $200 million (£139 million, at the time) on a debt free, cash free basis and normalised working capital. The Putney Acquisition Agreement contained usual and customary representation and warranties, of which Putney, Inc's remained in place for 12 months following completion of the acquisition and which were on an indemnity basis backed by an escrow.

7.1.6 *Apex Acquisition Agreement*

On 14 October 2016, the Group entered into a sale and purchase agreement with Apex Laboratories Pty, Ltd ("**Apex Acquisition Agreement**"). Under the terms of the Apex Acquisition Agreement, the Group agreed to acquire the entire issued share capital of Apex Laboratories Pty, Ltd for £34.2 million (AUD$55.0 million) on a debt free, cash free basis. The Apex Acquisition Agreement contained usual and customary representation and warranties.

7.1.7 *Animal Ethics*

On 31 March 2017 the Company entered a long term intellectual property licensing agreement ("**IPLA**") with Animal Ethics Pty, Ltd (Animal Ethics). The IPLA gave the Group the rights to sell and market Animal Ethics Pty, Ltd's product Tri-Solfen® for all animal species in all international markets, excluding Australia and New Zealand. Under the terms of the IPLA, the Company agreed to make milestone payments on signing, upon the first and second anniversaries of the IPLA and on the first two major species approvals in markets with significant potential. Additionally, a royalty is paid on all net sales. At the same time as entering into the IPLA, the Company also entered into a sale and purchase agreement to acquire 33.0 per cent. of the issued share capital of Medical Ethics Pty, Ltd ("**Medical Ethics Acquisition Agreement**"), the parent company of Animal Ethics (which is its only principal subsidiary), for a total consideration of £11.1 million (AUD$18.0 million). The consideration paid was split as to AUD$9.0 million for new equity to provide funding to Animal Ethics and the balance to acquire existing shares from the shareholders of Medical Ethics. The Medical Ethics Acquisition Agreement contained usual and customary representation and warranties.

7.2 ***AST Farma***

AST Farma has not entered into any material contracts, other than contracts in the ordinary course of business, in the two years prior to the date of this document nor is it party to any other contract (other than contracts entered into in the ordinary course of business) which contains any provision under which AST Farma has any obligation or entitlement which is material to it at the date of this document.

7.3 ***Le Vet***

Le Vet has not entered into any material contracts, other than contracts in the ordinary course of business, in the two years prior to the date of this document nor is it party to any other contract (other than contracts entered into in the ordinary course of business) which contains any provision under which Le Vet has any obligation or entitlement which is material to it at the date of this document.

8. Litigation

8.1 ***Dechra***

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), nor have there been any such proceedings during the 12 months preceding the date of this document, which may have, or have had in the recent past, a significant effect on the Company's and/or the Group's financial position or profitability.

8.2 ***AST Farma***

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), nor have there been any such proceedings during the 12 months preceding the date of this document, which may have, or have had in the recent past, a significant effect on AST Farma's and/or the AST Farma group's financial position or profitability.

8.3 ***Le Vet***

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), nor have there been any such proceedings during the 12 months preceding the date of this document, which may have, or have had in the recent past, a significant effect on Le Vet's and/or the Le Vet group's financial position or profitability.

9. Working Capital

The Company is of the opinion, taking into account the New Facility Agreement and the net proceeds of the Placing, that the working capital of the Enlarged Group is sufficient for its present requirements, that is for at least the next 12 months from the date of this document.

10. Significant Change

10.1 There has been no significant change in the financial or trading position of the Dechra Group since 30 June 2017, the date to which the last audited financial statements of the Company were prepared.

10.2 Save for the acquisition of certain licences owned by AST Beheer and Curados B.V. and the disposal of certain non-operational assets (as more particularly disclosed in note 21 (Subsequent Events) of the Historical Financial Information of AST Farma in Section B of Part IV (Historical Financial Information) of the Circular), there has been no significant change in the financial or trading position of AST Farma since 31 December 2016, the date to which the last audited financial statements of AST Farma were prepared.

10.3 Save for the acquisition of a 33 per cent. holding in Bridgefarma B.V. and the disposal of certain non-operational assets (as more particularly disclosed in note 25 (Subsequent Events) of the Historical Financial Information of Le Vet in Section D of Part IV (Historical Financial Information) of the Circular), there has been no significant change in the financial or trading position of Le Vet since 31 December 2016, the date to which the last financial statements of Le Vet were prepared.

11. Related Party Transactions

Dechra

The Company has not entered into any related party transaction since 30 June 2017, its most recent year end for which audited accounts have been published, to the date of this document.

AST Farma and Le Vet

Pages 51 to 52 and 76 to 77 of this document set out related party transactions undertaken by AST Farma and Le Vet respectively. These related party transactions relate to (i) transactions between AST Farma and Le Vet, which are currently separate companies but part of a group with shared ownership, and which, to the extent they continue post Completion, will be internalised following Completion; (ii) transactions with AST Beheer, which relate to certain products that will be transferred to AST Farma and Le Vet as part of the Acquisition and therefore will be internalised following Completion; (iii) the management fee charged by the current owners to both AST Farma and Le Vet, which will not be charged following Completion; and (iv) other related party transactions, which refer to activities with other companies associated with the Sellers, such as contract manufacturing and product development, which whilst continuing will not be related party transactions following Completion.

12. Consents

Investec has given and has not withdrawn its written consent to the inclusion of its name in this document in the form and context in which it is included.

PricewaterhouseCoopers LLP has given and has not withdrawn its written consent to the inclusion of its reports set out in Section A and C Part IV (*Historical Financial Information*) and Section B Part V (*Unaudited Pro Forma Financial Information*) of this document in the form and context in which they are included.

13. Documents Available for Inspection

Copies of the following documents will be available for physical inspection during normal business hours on any Business Day at the registered office of the Company and at DLA Piper UK LLP, 3 Noble Street, London EC2V 7EC, from the date of this document until 15 minutes prior to, and during, the General Meeting:

(a) the memorandum and articles of incorporation of the Company;

(b) the Company's 2017 Annual Report and Accounts, the Company's 2016 Annual Report and Accounts and the Company's 2015 Annual Report and Accounts;

(c) the reports on the Historical financial information set out in Section A and C Part IV and the Unaudited Pro Forma Financial information set out in Section B Part V;

(d) the written consent letters referred to in paragraph 12 above;

(e) the Share Purchase Agreement;

(f) the service contracts referred to in paragraph 5.1 above;

(g) the material contracts referred to in paragraph 7 above; and

(h) this Circular and the Form of Proxy.

GLOSSARY

The following is a glossary of certain technical and other terms used in this document. A list of defined terms which apply throughout this document and the accompanying Form of Proxy are more particularly detailed in the section headed "*Definitions*" at the start this document.

"**CAP**"	companion animal products;
"**Centralised Procedure**"	a European authorisation route resulting in a centrally authorised medicinal product with a single marketing authorisation;
"**CER**"	constant exchange rate;
"**Companion Animal**"	an animal kept primarily for a person's company, protection, or entertainment rather than as a working animal, livestock, or laboratory animal;
"**Decentralised Procedure**"	a method by which a medicinal product can obtain market authorisation (introduced by Directive 2004/28/EC) by way of relying on the recognition by national authorities of a first assessment performed in one EEA member state but which may not have received a marketing authorisation at the time of application;
"**FAP**"	food producing animal products;
"**fenobarbitial**"	a barbiturate, nonselective central nervous system depressant which is primarily used for the treatment of certain types of epilepsy;
"**generic plus product**"	an improved version of an original drug which has lost product patent protection;
"**Mutual Recognition**"	a method by which a medicinal product can obtain market authorisation (introduced by Directive 2001/83/EC) by virtue of that medicine having already received a marketing authorisation in one EEA member state;
"**ROCE**"	return on capital employed; and
"**WACC**"	weighted average costs of capital.

DECHRA PHARMACEUTICALS PLC

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a General Meeting of Dechra Pharmaceuticals PLC (the "Company") will be held at 6 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich CW9 7UA on 12 February 2018 at 9.30 a.m. for the purposes of considering and, if thought fit, passing the following resolutions which will be proposed as ordinary resolutions and special resolutions as set out below:

ORDINARY RESOLUTIONS

Acquisition Resolution

1. That the proposed acquisition of AST Farma B.V. and Le Vet Beheer B.V. ("Acquisition") substantially on the terms of the Share Purchase Agreement (as defined in the circular to shareholders dated 26 January 2018 which accompanies this Notice (the "Circular") be and is hereby approved and the Directors of the Company ("the Directors") (or a duly authorised committee of the Directors) be and are hereby authorised to (1) take all such steps as may be necessary or desirable in connection with, and to implement, the Acquisition; and (2) to agree such modifications, variations, revisions, waivers or amendments to the terms and conditions of the Share Purchase Agreement (provided such modifications, variations, revisions, waivers or amendments are not material) and to any documents or arrangements relating thereto, in either case as they may in their absolute discretion think fit.

Allotment resolution

2. That, subject to the passing of Resolution 1 above pursuant to section 551 of the Companies Act 2006 (2006 Act), the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot Relevant Securities:

   2.1 comprising equity securities (as defined in section 560(1) of the 2006 Act) up to an aggregate nominal amount of £681,894 (such amount to be reduced by the aggregate nominal amount of Relevant Securities then allotted pursuant to paragraph 2.2 of this Resolution) in connection with a rights issue (as defined in the Listing Rules published by the Financial Conduct Authority):

      2.1.1 to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and

      2.1.2 to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and

   2.2 otherwise than pursuant to paragraph 2.1 of this Resolution, up to an aggregate nominal amount of £340,947 (such amount to be reduced by the aggregate nominal amount of Relevant Securities then allotted pursuant to paragraph 2.1 of this Resolution in excess of £340,947;

   provided that (unless previously revoked, varied or renewed) these authorities shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or on 12 May 2019 (whichever is the earlier), save that, in each case, the Company may make an offer or agreement before the authority expires which would or might require Relevant Securities to be allotted after the authority expires and the Directors may allot Relevant Securities pursuant to any such offer or agreement as if the authority had not expired.

   In this Resolution, Relevant Securities means shares in the Company or rights to subscribe for or to convert any security into shares in the Company; a reference to the allotment of Relevant Securities includes the grant of such a right; and a reference to the nominal amount of a Relevant Security which is a right to subscribe for or to convert any security into shares in the Company is to the nominal amount of the shares which may be allotted pursuant to that right.

These authorities are in substitution for and shall replace all existing authorities (which, to the extent unused at the date of this Resolution, are revoked with immediate effect), but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

SPECIAL RESOLUTIONS

Disapplication of pre-emption resolutions

3. That, subject to the passing of Resolutions 1 and 2 above and pursuant to sections 570 to 573 of the 2006 Act, the Directors be and are generally empowered to allot or make offers or agreements to allot equity securities (within the meaning of section 560(1) of the 2006 Act) for cash pursuant to the authorities granted by Resolution 2 and to sell ordinary shares held by the Company as treasury shares for cash, as if section 561(1) of the 2006 Act did not apply to any such allotment (or sale), provided that this power shall be limited to the allotment of equity securities or sale of treasury shares:

    3.1 in connection with an offer of equity securities (whether by way of a rights issue, open offer or otherwise, but, in the case of an allotment pursuant to the authority granted under Resolution 2.1, such power shall be limited to the allotment of equity securities in connection with an offer by way of a rights issue):

        3.1.1 to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and

        3.1.2 to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and

    3.2 otherwise than pursuant to Resolution 3(a), up to an aggregate nominal amount of £51,142.

    and (unless previously revoked, varied or renewed) this power shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or on 12 May 2019 (whichever is the earlier), save that the Company may make an offer or agreement before this power expires which would or might require equity securities to be allotted for cash (or treasury shares to be sold) after this power expires and the Directors may allot equity securities (or sell treasury shares) for cash pursuant to any such offer or agreement as if this power had not expired.

    This power is in substitution for and shall replace all existing powers which, to the extent unused at the date of this resolution, are revoked with immediate effect, but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

4. That, subject to the passing of Resolutions 1 to 3 above and in addition to any authority granted pursuant to Resolution 3, the Directors be and are generally empowered to allot equity securities (within the meaning of section 560 of the 2006 Act) for cash pursuant to the authorities granted by Resolution 2 and to sell ordinary shares held by the Company as treasury shares for cash as if section 561(1) of the Act did not apply to any such allotment or sale, provided that this power shall be limited to the allotment of equity securities or sale of treasury shares:

    4.1 Up to an aggregate nominal amount of £51,142;

    4.2 used only for the purposes of financing (or refinancing, if such refinancing occurs within six months of the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre Emption Rights most recently published by the Pre Emption Group prior to the date of this notice,

    and this power shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on 12 May 2019 (whichever is the earlier), save that the Company may make an offer or agreement before this power expires which would or might require equity securities to be allotted or treasury shares to be sold for cash after this power expires and the directors may allot equity securities or sell treasury shares for cash pursuant to any such offer or agreement as if this power had not expired.

By order of the Board

Melanie Hall
Company Secretary

Dated: 26 January 2018

Registered Office
24 Cheshire Avenue
Cheshire Business Park
Lostock Gralam
Northwich
CW9 7UA

Notes:

1. The right to vote at the Meeting is determined by reference to the Register of Members. Only those shareholders registered in the Register of Members of the Company as at 6.30 p.m. on 8 February 2018 (or, if the Meeting is adjourned, 6.30 p.m. on the date which is two days before the date of the adjourned meeting) shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their name at that time. Changes to entries in the Register of Members after that time shall be disregarded in determining the rights of any person to attend or vote (and the number of votes they may cast) at the Meeting.

2. If you wish to attend the Meeting in person, you must comply with the procedures set out in the notes to this Notice of Meeting by the dates specified in these notes.

3. A shareholder is entitled to appoint another person as his or her proxy to exercise all or any of his or her rights to attend, speak and vote at the Meeting. A proxy need not be a shareholder of the Company.

   A shareholder may appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Failure to specify the number of shares each proxy appointment relates to or specifying a number which when taken together with the numbers of shares set out in the other proxy appointments is in excess of the number of shares held by the shareholder may result in the proxy appointment being invalid. To appoint more than one proxy, complete a separate proxy form in relation to each appointment. You may photocopy the Proxy Form provided or, alternatively, you may wish to contact the Company's Registrar, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA or call their shareholder helpline on 0371 384 2030. Overseas shareholders should call +44 (0)121 415 7047. Lines are open 8.30 a.m. to 5.30 p.m., Monday to Friday (London time) (excluding public holidays in England and Wales).

   A proxy may only be appointed in accordance with the procedures set out in these notes and the notes to the Proxy Form. The notification of termination of a proxy appointment should be in writing.

   The appointment of a proxy will not preclude a shareholder from attending and voting in person at the Meeting.

4. A Proxy Form is enclosed. **To be valid, a Proxy Form must be completed, signed and sent to the offices of the Company's Registrar, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, so as to arrive no later than 9.30 a.m. on 8 February 2018** (or, if the Meeting is adjourned, no later than 48 hours before the time of any adjourned meeting).

5. As an alternative to completing the hard copy Proxy Form, a shareholder may appoint a proxy or proxies electronically by lodging a Proxy Form at www.sharevote.co.uk. Alternatively, shareholders who have already registered with Equiniti's online portfolio service, Shareview, can vote by logging on to their portfolio at www.shareview.co.uk and then click on the link to vote. **For an electronic proxy appointment to be valid, the appointment must be received by Equiniti Limited no later than 9.30 a.m. on 8 February 2018** (or, if the Meeting is adjourned, no later than 48 hours before the time of any adjourned meeting). Any electronic communication sent by a shareholder to the Company or Equiniti Limited which is found to contain a virus will not be accepted by the Company.

6. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

7. Alternatively, if you are a member of CREST, you may register the appointment of proxy by using the CREST electronic proxy appointment services as follows:

   7.1 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by using the procedures, and to the address, described in the CREST Manual subject to the provisions of the Company's Articles of Association. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

7.2 In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK and Ireland's specifications and must contain the information required for such instruction as described in the CREST Manual (www.euroclear.com). **The message, regardless of whether it relates to the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by no later than 9.30 a.m. on 8 February 2018** (or, if the Meeting is adjourned, no later than 48 hours before the time of any adjourned meeting). For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

7.3 CREST members and, where applicable, their CREST sponsors, or voting service provider(s) should note that Euroclear UK and Ireland does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

7.4 The Company may treat a CREST Proxy Instruction as invalid in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

8. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member, provided that they do not do so in relation to the same shares.

9. As at 25 January 2018 (being the last practicable date before the publication of this Notice of Meeting), the Company's issued share capital consists of 93,491,670 ordinary shares of 1 pence each, carrying one vote each. The Company does not hold any ordinary shares in treasury. Therefore, the total voting rights in the Company as at 25 January 2018 are 93,491,670.

10. Where a copy of this notice is being received by a person who has been nominated to enjoy information rights under section 146 of the 2006 Act (Nominated Person):

10.1 the Nominated Person may have a right under an agreement between him/her and the shareholder by whom he/she was nominated, to be appointed, or to have someone else appointed, as a proxy for the Meeting; or

10.2 if the Nominated Person has no such right or does not wish to exercise such right, he/she may have a right under such an agreement to give instructions to the shareholder as to the exercise of voting rights.

The statement of the rights of shareholders in relation to the appointment of proxies in note 3 to 9 above do not apply to a Nominated Person. The rights described in such notes can only be exercised by shareholders of the Company.

11. The information required by section 311A of the 2006 Act to be published in advance of the Meeting, which includes the matters set out in this notice and information relating to the voting rights of shareholders, is available at www.dechra.com.

12. You may not use any electronic address (within the meaning of section 333(4) of the 2006 Act) provided in this Notice (or in any related documents including the Chairman's Letter and Proxy Form) to communicate with the Company for any purposes other than those expressly stated.

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