Dechra®

Pharmaceuticals PLC

ANNUAL REPORT AND ACCOUNTS

for the year ended 30 June 2014

STRENGTHENING OUR POSITION WITHIN THE GLOBAL ANIMAL HEALTH MARKET

Dechra
Pharmaceuticals PLC

Welcome to Dechra Pharmaceuticals PLC

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

Our Strategy

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

- Pipeline Delivery
- Portfolio Focus
- Geographical Expansion
- Acquisition

Investor Website

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

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

Look Out For These Icons

Find out more about a specific topic

View further content on our website: www.dechra.com

Scan the QR code with your smart device to visit our website.

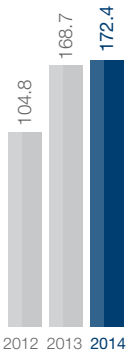
Financial Highlights

Total Revenue
£193.6m
2013: £189.2m

CER*: Up 1.6%
£: Up 2.3%

EU Pharma Revenue
£172.4m
2013: £168.7m

CER*: Up 1.0%
£: Up 2.2%

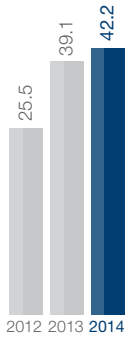


US Pharma Revenue
£21.2m
2013: £20.5m

CER*: Up 6.8%
£: Up 3.4%

Underlying Operating Profit
£42.2m
2013: £39.1m

CER*: Up 7.2%
£: Up 7.9%

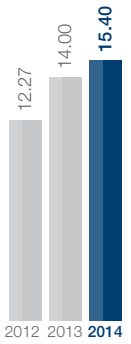


Underlying Diluted Earnings per Share
36.32p
2013: 29.07p

CER*: Up 23.9%
£: Up 24.9%

Dividend per Share
15.40p
2013: 14.00p

CER*: Up 10.0%
£: Up 10.0%



* CER is defined as Constant Exchange Rate against prior year, whilst £ is at reported (actual) exchange rate.

A reconciliation to reported measures can be found on page 41.

Operational Highlights

- Approval of a major new equine product, *Osphos®,* with launch targeted for quarter one of the 2015 financial year in the US and the UK.
- Good progress on the pipeline; dossier submitted for approval of a novel canine endocrine product in the US and EU.
- All EU markets are showing growth, with the exception of the Netherlands.
- Strong performance in the US driven by our key products growing well and the Ophthalmic range relaunch, partly offset by continuing supply issues.
- Group revenue up by 1.6% (CER); positive momentum in the second half with revenue growth of 4.0% (CER).
- Completed the acquisition of the trade and assets of PSPC Inc., which will expand our US product portfolio.
- Newly established Italian subsidiary opened in March 2014.
- Significantly improved net debt position of £5.0 million (2013: £80.8 million) following divestment of the Services Segment.

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Strategic Report

Dechra®
Pharmaceuticals PLC

Our Business and Strategy

Our Group at a Glance

EU Pharmaceuticals

Dechra Veterinary Products EU (DVP EU)

323 Employees

13 Countries

Dechra Pharmaceuticals Manufacturing (DPM)

328 Employees

2 Manufacturing Sites

DVP EU markets and sells Dechra's veterinary products throughout Europe and exports to over 40 countries. The business has an operating board of eight senior managers, and is managed from Bladel, the Netherlands, Sansaw, UK, and Uldum, Denmark. In total, DVP EU employs 323 people. Inventory is managed through a central distribution centre in Uldum, Denmark.

DVP EU has sales operations in 13 countries: Belgium, Denmark, France, Finland, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden and the UK, each run by a country manager. DVP EU also exports to other European countries such as Austria, Czech Republic and Poland, as well as other territories including Australia, Brazil, the Middle East and the Far East.

The key products in the DVP EU portfolio are predominantly Companion Animal and Equine Products; however, with the acquisition of *Eurovet*® in 2012, the range expanded into the food producing animal market.

DVP EU also markets a range of specialist, therapeutic and maintenance pet diets, branded *Specific*®.

DPM produces the vast majority of Dechra's pharmaceuticals and also manufactures for third parties on a contract basis. The key strategic objectives of manufacturing are to produce Dechra's veterinary pharmaceutical product range efficiently and economically, maintain a robust and reliable supply chain for the Group and to contribute revenue and profit to the business through third party manufacturing.

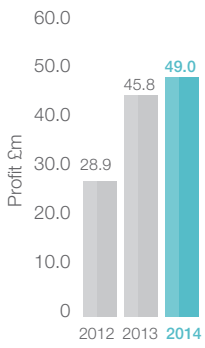
Skipton

The site at Skipton employs 220 people, and offers a comprehensive range of pharmaceutical manufacturing and packing services, predominantly for Companion Animal Products. The site is dual-licensed to produce both veterinary and human products. The site includes Pharmaceutical Development, Routine QC (Quality Control) and Stability Testing and Validation Laboratories.

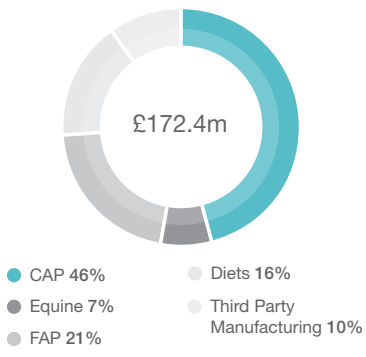
Bladel

The site at Bladel employs 108 people. The operation complements the Skipton site, predominantly manufacturing products for food producing animals in large scale batches. This site also has an aseptic manufacturing facility to produce sterile injections, an important competence in DPM's manufacturing portfolio. As in Skipton, the site includes QC and Development Laboratories.

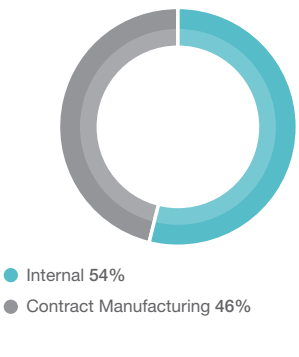
Profit Evolution for EU



Revenue for the EU Pharmaceuticals Segment



Manufacturing Volumes



Find out more about Our Business Model on page 14.

US Pharmaceuticals

54 Employees

2 Locations

Dechra Veterinary Products US (DVP US) markets and sells Dechra's veterinary products across the US, the world's largest animal health market. The business is strategically located in Kansas City, at the heart of the 'Animal Health Corridor', an area recognised globally for its concentration of animal health businesses. DVP US expanded during this financial year with the acquisition of PSPC Inc.'s manufacturing unit, based in Melbourne, Florida.

Led by an operating board of four senior managers, DVP US comprises 54 employees at year end, 28 of whom are field-based sales representatives responsible for around 1,000 clinics each. The rest of the team consists of marketing professionals, in-house veterinarians, field veterinarians, technical support staff and a customer service team.

DVP US currently markets Companion Animal and Equine Products.

Product Development

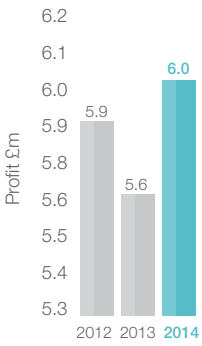
54 Employees

4 Locations

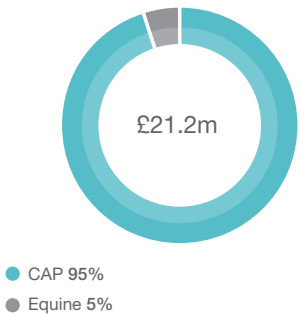
The Product Development and Regulatory Affairs (PDRA) team develops and licenses Dechra's own branded veterinary product portfolio of novel and generic pharmaceuticals. Additionally, the team manages post approval adverse event reporting, periodic product renewals and other activities required to maintain the product approvals.

The team of 54 people at 30 June 2014 is split into European Regulatory Affairs, US Regulatory Affairs, Pharmaceutical Development and Product Development. They work at four locations: Overland Park, USA, Sansaw, England, Skipton, England, and Bladel, the Netherlands. The team includes veterinarians, formulation chemists, pharmacists, analysts, clinical trial managers and product development managers.

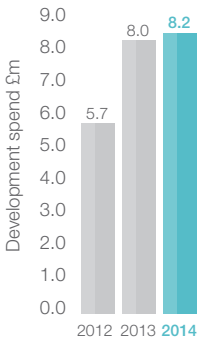
Profit Evolution for DVP US



Revenue for DVP US



Development Spend



Chairman's and Chief Executive Officer's Statement

Michael Redmond
Non-Executive Chairman

Ian Page
Chief Executive Officer

"We have focused on our four key growth drivers, namely portfolio focus, pipeline delivery, geographical expansion and acquisition."

We are pleased to report that the Group has delivered a solid performance with revenue and operating margins increasing in the majority of countries in which we trade. Following a difficult start to the year, predominantly due to a disappointing performance in the Netherlands and continuing supply issues in the US, we experienced positive momentum in the second half with improved revenue growth of 4.0% compared to a decline of 0.7% in the first half (at CER). This creates a strong platform for the start of our new financial year.

Following the divestment of the Services Segment in August 2013, which created a pure veterinary pharmaceuticals and related products business, we have focused on our four key growth drivers, namely portfolio focus, pipeline delivery, geographical expansion and acquisition:

- we have optimised returns from our existing portfolio by achieving a higher gross margin;
- our pipeline has delivered a major new equine product, *Osphos*, and we have received regulatory approval to relaunch our ophthalmic range in the US;
- geographical expansion has continued with the establishment of a new subsidiary in Italy, whilst planning is at an advanced stage to commence trading in Canada; and
- we have completed a strategic acquisition in the US, which has both increased our critical mass and bolstered our product portfolio.

Portfolio Focus

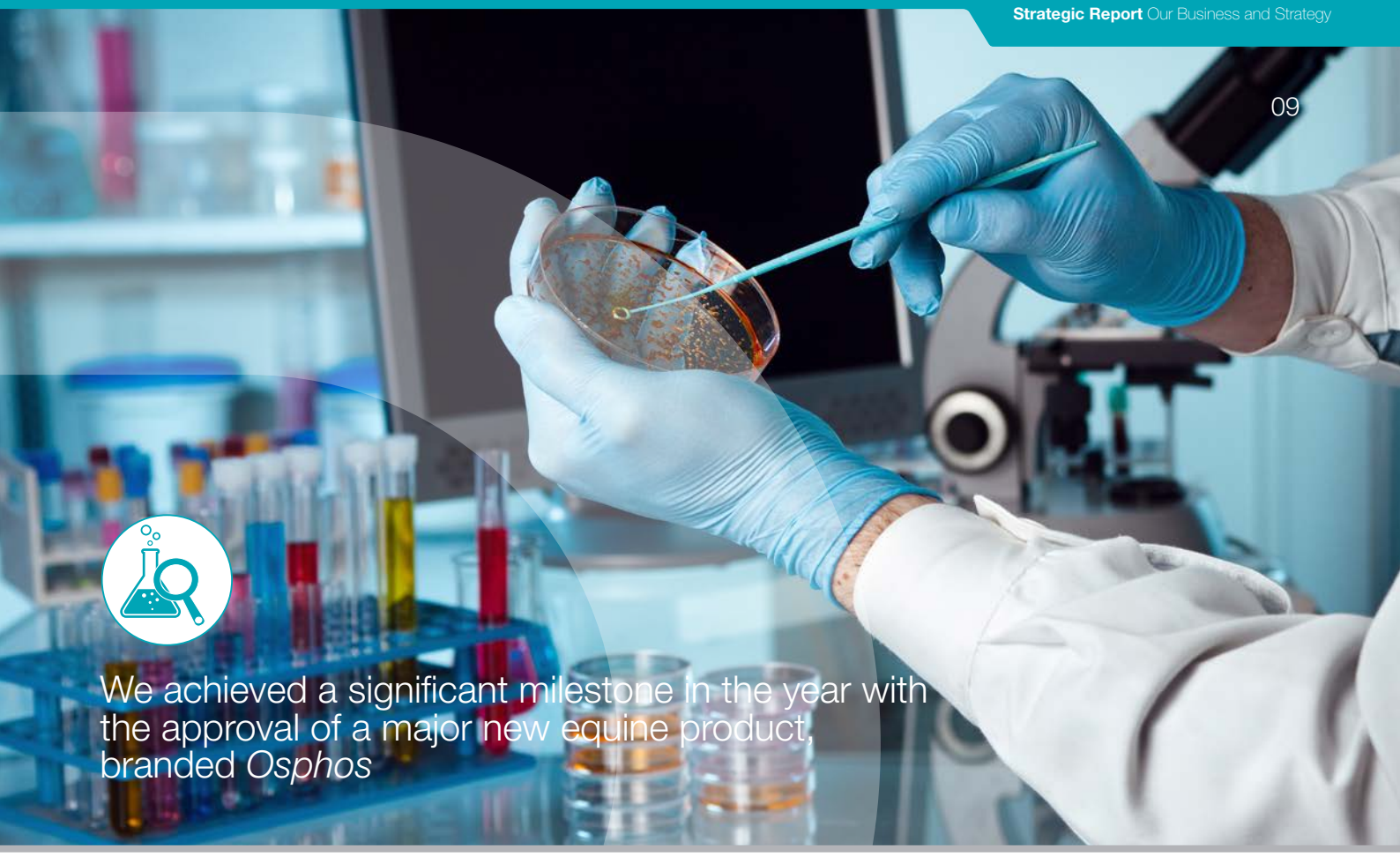
Our aim is to maximise revenue and profits from our existing portfolio through a clear focus and a strong market position in eight therapeutic sectors: dermatology, ophthalmology, equine medicine, anaesthesia and analgesia, endocrinology, cardiovascular disease, food producing animal antimicrobials and pet diets.

Maximising revenues and profit

(i) Driving revenue growth

Our focus on defined therapeutic categories and extensive marketing and sales capabilities have enabled us to deliver growth in almost all our target therapeutic sectors:

- within our major sector, endocrinology, *Forthyron*® and *Felimazole*® have seen growth in the EU, whilst in the US, *Vetoryl*® and *Felimazole* have increased by 24% and 19% respectively;
- our unique market leading brands in dermatology, *Canaural*® and Malaseb™, continue to expand. The current strong performance of our range of medicated shampoos will be further enhanced by the recent launch of a new formulation in the US, MiconaHex+Triz™;
- *Cardisure*®, our cardiovascular product, the only branded, differentiated pimobendan generic within the EU, has delivered exceptional growth of 32% across all our key European markets;
- our unique anaesthetic and analgesic product, *Comfortan*®, is highly rated by veterinarians and has grown by 40%. By offering a comprehensive range of critical care products, we are successfully retaining market share despite strong competition; and



We achieved a significant milestone in the year with the approval of a major new equine product, branded *Osphos*

- within ophthalmology, *Fucithalmic*® Vet remains the leading first line treatment for eye infections. We are also pleased to report that we have successfully re-launched *Vetropolycin*® and *Vetropolycin* HC within the US market following the resolution of long term supply issues.

Our success is driven by our ability to offer unique and specialised products that address veterinarians' requirements. This, in turn, is supported by clear branding and marketing messages, examples of which can be found on page 29.

(ii) Increasing profits through our own distribution

We have brought in-house a number of products that were acquired through *Eurovet*, which were historically marketed through distribution partners, thereby enabling the Group to retain the full margin and enhance sales focus. Contracts with the previous partners ended in December 2013, allowing us to market *Forthyron* in France and Sweden, and *Atipam*® and *Sedator*® in the Nordics from January 2014.

(iii) Positioning Dechra as a trusted partner to veterinarians

We provide solutions that add value to veterinarians by supporting them in their daily clinical work and keeping them abreast of developments in our key therapeutic sectors.

We have updated the Dechra Academy online tool, a well respected platform that can be accessed by all veterinarians and provides certified Continuous Professional Development in a number of our therapeutic focus areas. We have also conducted over 165 evening meetings in the US, presenting endocrinology seminars with an average of 35 veterinarians attending each session. This demonstrates our ability to support veterinarians in improving their understanding of our areas of therapeutic expertise.

Food Producing Animal Antimicrobials

Our strategic intent is to build critical mass over the medium to long term; however, within the financial year, sales in this sector declined by 7.3% at CER.

This anticipated decline was due to a very competitive environment and a global focus on antimicrobial reduction. The Netherlands has seen the largest decline and overall is our only European market not to have shown total growth within the year. As previously reported, Dutch veterinarians have reduced antibiotic usage by over 50% in the last three years due to government pressure.

Despite the recognised benefits of some of our water soluble products, we believe that the Group has further exposure to the decline in antimicrobials, predominantly in Germany where we have a strong market position. In the majority of other markets in which we trade, we have low market shares and we anticipate that we should be able to compensate for any decline in the market by increasing our volumes.

Pipeline Delivery

Our aim is to deliver the ongoing development projects and ensure we continuously refill the pipeline in order to sustain the flow of new products.

To learn more about *Osphos* read the case study on page 58.

Chairman's and Chief Executive Officer's Statement continued

Delivering the existing pipeline

We achieved a significant milestone in April 2014 with the approval in the US and UK of a major new equine product, branded *Osphos*. We also submitted our EU dossier in July 2014 having completed the studies to establish a maximum residue limit for the product. *Osphos* (clodronate injection) is used for the control of the clinical signs associated with navicular syndrome in horses. Navicular syndrome occurs in approximately 6% of horses and causes pain and lameness in the forelimbs. *Osphos* is applied as an intramuscular injection by the veterinarian and demonstrates measurable clinical improvement.

Following the successful registrations reported last year, we have introduced the following products:

- *Buprenodale*® Multidose Injection launched in 16 European countries in October 2013. *Buprenodale* is a generic Buprenorphine injection which complements our analgesics portfolio; and
- *Felimazole* Tablets 1.25mg launched in 12 European countries in September 2013. *Felimazole* is our leading endocrinology treatment for hyperthyroidism in cats. The 1.25mg dosage strength provides flexibility on dosing options and was introduced to differentiate our product from recent generic competition.

Progress in our US pipeline is important to continue to deliver organic growth:

- MiconaHex+Triz™ was formulated and launched as a shampoo, topical spray and wet wipes to complement our dermatological range and to compete with the market leading brand whose patents have recently expired; and
- *Vetropolycin* and *Vetropolycin* HC have been successfully transferred into a new manufacturing site with the necessary variations to the licenses completed and approved by the FDA. These ophthalmic products are unique in being the only veterinary approved products within their sector and were relaunched at the end of our financial year in June 2014. They were historically sold by the Group up until January 2010 and achieved historic peak sales of US$2.2 million per annum. However, manufacturing supply issues with a third party contractor resulted in the product coming off the market in 2010.

Finally, to support our global expansion strategy, registrations into new subsidiary territories were also achieved, for example:

- *Felimazole* Tablets in South Korea in October 2013;
- *Felimazole* Tablets 1.25mg in Canada in September 2013; and
- *Sedator* and *Atipam* in Israel in February 2014.

Pipeline Progress Update

The following progress has been made on our pipeline products:

- dossiers have been submitted for both the US and EU for a new novel canine endocrinology product following the completion of a successful clinical trial;
- a pivotal clinical trial is under way for a canine endocrine opportunity;
- characterisation studies are ongoing for canine dermatological and canine ophthalmology products;
- clinical trials for a feline endocrinology drug were suspended during the third quarter of our financial year due to concerns over the formulation. A revised formulation is now being assessed for suitability to recommence the trial;
- a number of generic and range extension dossiers have been submitted within the EU and are currently under review; and
- *Osphos* has been submitted in Australia and Canada.

Refilling the pipeline

We are focused on continuously identifying and evaluating new ideas and we have screened several new opportunities within the period. As a result we have started new development projects as shown on page 25.

We are of course in the early phases of these programmes but these new projects increase the depth of our pipeline.

Additional potential candidates are still being assessed and we expect further progress next year.

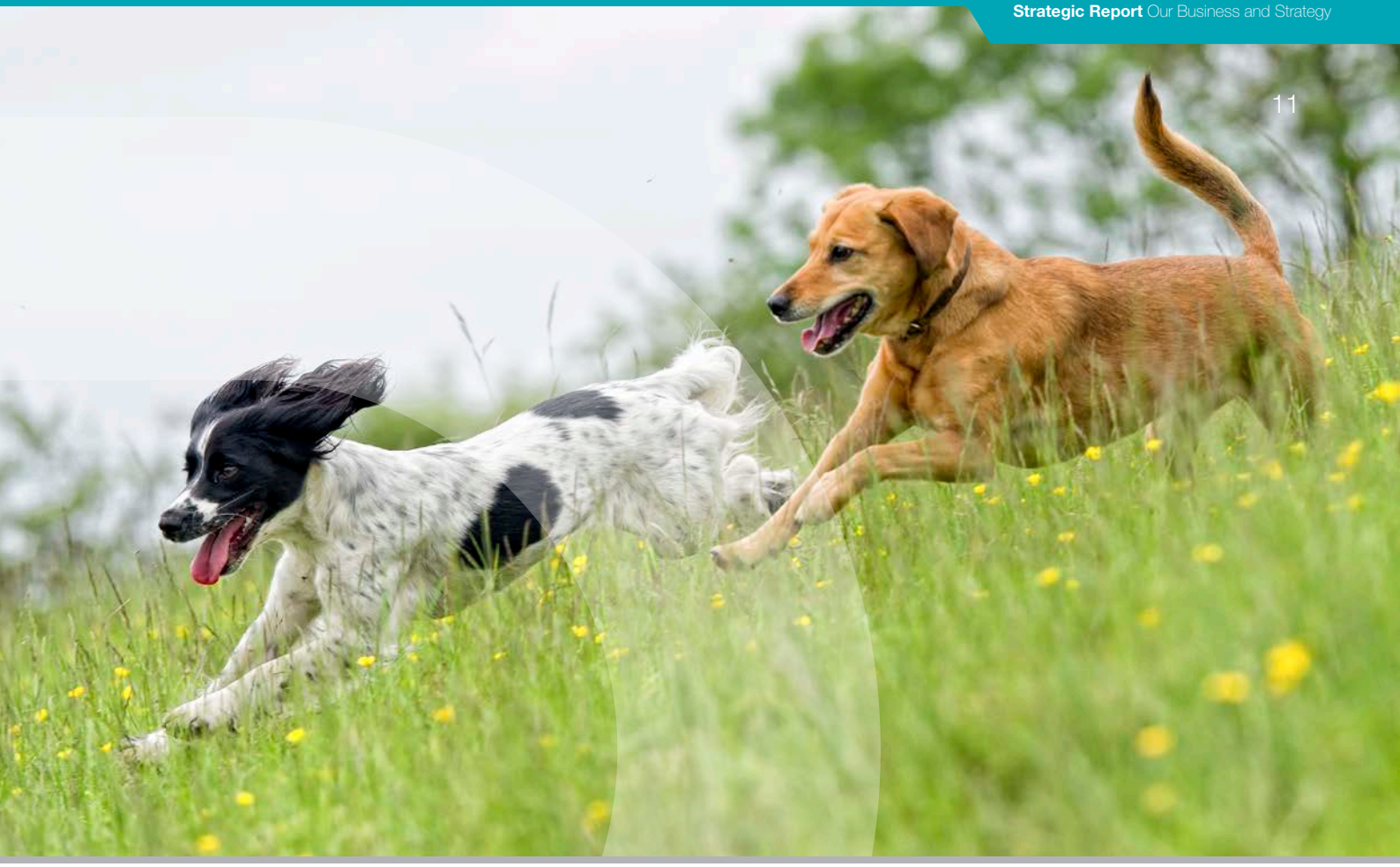
Geographical Expansion

We aim to expand geographically through a strategy addressing short, medium and long term opportunities. In the short term we are opening subsidiaries where we have existing critical mass. For the medium to long term we are developing our plans to build a presence in new geographies where there is a recognised market opportunity.

The start of trading in Italy on 1 March 2014 represented a major milestone for Dechra as it is the first major territory we have entered as a greenfield start-up since the US in 2004. The financial justification for setting up our own subsidiary is clear: the value of the margins retained by selling our own products exceeds the incremental infrastructure costs, therefore delivering additional profit to the bottom line. We appointed an experienced country manager who led the process to establish the office and recruited a skilled team based in Turin. Distribution agreements with our main Italian distributors were terminated, with our contractual obligations ending in February 2014. Since the start of trading under our own Dechra brand, sales have been in line with our expectations.

We are following a similar process in Canada with the appointment of a country manager who has set up an office facility in Montreal. We have two major distributors in Canada; our contractual obligations with one of them will terminate in December 2014, therefore, trading will commence in January 2015.

We have identified other countries and conducted thorough market reviews to ascertain the feasibility of future greenfield start-ups. We are currently preparing detailed financial plans with the intention of trading in another new territory during the 2016 calendar year.



Our Export department has focused their commercial efforts on a number of key territories. The Regulatory team has provided product registration support. Our objective is to obtain enough product registrations to build a critical mass to support our subsidiary expansion strategy in future years. To accelerate this process additional regulatory support is being recruited.

Acquisition

We aim to identify and complete acquisitions that will increase Dechra's value and improve returns to shareholders.

In May 2014 we announced the acquisition of the trade and assets of PSPC Inc., for a consideration of US$8.5 million. In addition to the initial consideration Dechra will pay royalties on total net sales of 10.0%, which will increase by 2.5% once annualised sales exceed US$7.5 million with a further increase should sales exceed US$12.5 million. Subsequent to the acquisition of the trade and assets, in June 2014 we acquired PSPC's facility for a further US$3.0 million. PSPC's principal product, *Phycox*®, is a nutraceutical with historic sales of approximately US$4.5 million per annum. *Phycox*, a novel and patented product, competes in the US veterinary joint healthcare supplement market, a sector estimated at US$55.0 million. The business has also developed a new Levothyroxine product which is in the final phase of development. We paid a milestone of US$1.5 million for this product which will be launched in the first half of our new financial year (ending June 2015). This product will strengthen Dechra's endocrinology therapeutic sector and contains the same active principal ingredient as one of our leading European market brands. You can read more details on PSPC in the case study on page 61.

We are evaluating selective acquisition opportunities. The principal selection criteria are businesses that:

- have their own intellectual property;
- can introduce new technologies, or complementary product ranges; or
- would provide entry into new geographies.

We continue to have a dialogue with a number of businesses; however, recent transactions by big pharma in the animal health sector have created unreasonably high expectations. Where acquisition is not possible, we are pursuing strategic partnerships.

Strategic Enablers

Manufacturing

There have been notable developments in our manufacturing capabilities throughout the year. With a focus on continuous improvement and efficiency gains, significant investments have been made in the liquids, creams and ointments suite, tablet compression machines and the encapsulation production line. This investment is important as we work towards one of our strategic objectives for manufacturing: the extension of our FDA compliance into new dosage forms.

The application to the FDA for the approval of a new canine endocrinology product has triggered the FDA inspection of our sterile injectables facility at Skipton where the product will be manufactured. A significant amount of resource and effort has been put into ensuring that our facility and procedures will meet the standards required.

We have also completed the transfer of *Cardisure* and *Forthyron* to our Skipton facility. These key Companion Animal Products, which came into the Group through the *Eurovet* acquisition, were previously outsourced. Bringing these products in-house will improve margins and provide us with greater flexibility and control of production.

Chairman's and Chief Executive Officer's Statement continued

Logistics

Following a €2 million investment, our new enlarged central European distribution centre in Uldum, Denmark was opened on 26 November 2013. The new facility has more than doubled our scale to 7,400 m^2 and has tripled our pallet handling capacity to 10,500. This facility:

- creates a logistics hub that provides for all our current and medium term distribution requirements;
- almost entirely eliminates third party storage and handling costs; and
- improves logistics efficiency.

In the second half of the financial year we started an exercise to transfer our *Specific* pet diets to a new external third party manufacturing partner to improve overall delivery efficiency and product quality. Following an extensive search and due diligence, we identified a new supplier and started to transfer products into the new manufacturer. To date we have transferred over 50% of our volume requirements and are already seeing an improvement in quality, palatability and on time delivery.

We anticipate the transfer will be completed by the end of December 2014, at which time we intend to re-position and re-market this important range of products.

Information Technology

Further progress has been made with the Oracle ERP implementation. Our manufacturing facility in Bladel successfully went live on the platform in November 2013. After a full review of the project plan to ensure that the Oracle implementation would support our strategic objectives, we are now focusing on the next phase which includes the Group financial consolidation and the set-up of our European subsidiaries.

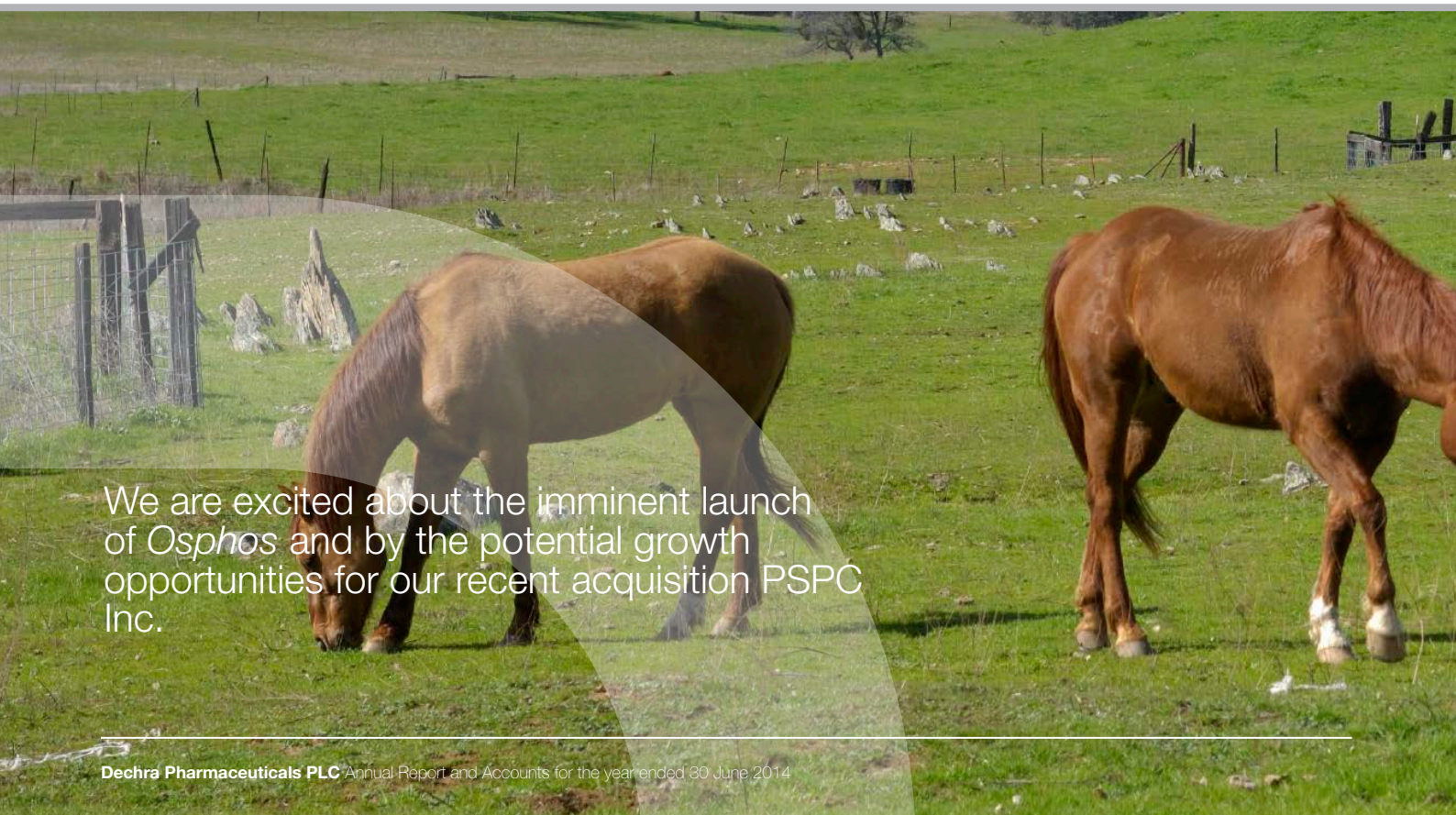
Within the year we have successfully standardised all critical non ERP software and hardware use across the Group, thereby reducing costs and improving internal systems. We have also improved communication capabilities by completing the roll out of a new secure private network across the majority of the business units.

Given the increasing importance of digital technologies, we have worked to update our customer-facing interfaces such as the Dechra Veterinary Products website and the Dechra Academy. The Dechra Veterinary Products website has been completely rewritten utilising the latest software capabilities with an optimised user interface pulling data from a newly established single database of all the Group's products' technical and marketing information. Furthermore, the Dechra Academy, with online learning courses for our veterinary customers, has been redeveloped to enhance its content and functionality. The site, www.dechra.co.uk, was launched in the UK in July 2014 and will be translated and rolled out across all our other trading subsidiaries throughout the remainder of the 2014 calendar year.

People

Senior Executive Team

Following the disposal of the Services Segment a new Senior Executive Team (SET) was established. The principal objective of the SET is to develop and implement the Group's strategy. The team comprises the Executive Directors along with the Company Secretary, US and Manufacturing Managing Directors and the heads of Product Development and Regulatory Affairs, HR and IT.



Management and Staff

A new Group HR Director, Katy Clough, joined us at the end of April 2014. Working closely with senior managers and the HR team, she has developed a people plan that supports our strategic aims and continues to build on the strong Values embedded across the Group. Dechra now employs 775 people in over 14 countries and we expect the headcount to increase during the next financial year. Our diverse and talented workforce has been key to our success and we will continue to leverage this advantage through succession planning and ongoing development programmes throughout the 2015 financial year.

Board Changes

At the Company's Annual General Meeting in October 2013 Neil Warner stepped down as Senior Independent Non-Executive Director and Chairman of the Audit Committee. Upon his retirement, Ishbel Macpherson was appointed as Senior Independent Non-Executive Director and Julian Heslop stepped into Neil's role as Chairman of the Audit Committee. In January 2014 Ed Torr stepped down as an Executive Director from the main Board following 17 years with the business. Ed has entered into a Consultancy Agreement with the Company to work on specific projects as and when required. We would like to express our thanks to both Neil and Ed for the huge contributions they have made to Dechra.

Dividend

The Board is proposing a final dividend of 10.65 pence per share (2013: 9.66 pence). Added to the interim dividend of 4.75 pence per share, this brings the total dividend per share for the financial year ended June 2014 to 15.40 pence, representing 10% growth over the previous year.

Subject to shareholder approval at the Annual General Meeting to be held on 24 October 2014, the final dividend will be paid on 21 November 2014 to shareholders on the Register at 7 November 2014. The shares will become ex-dividend on 6 November 2014.

Prospects

Current trading is in line with management expectations and is consistent, at constant exchange rates, with the growth seen in the second half of our prior financial year.

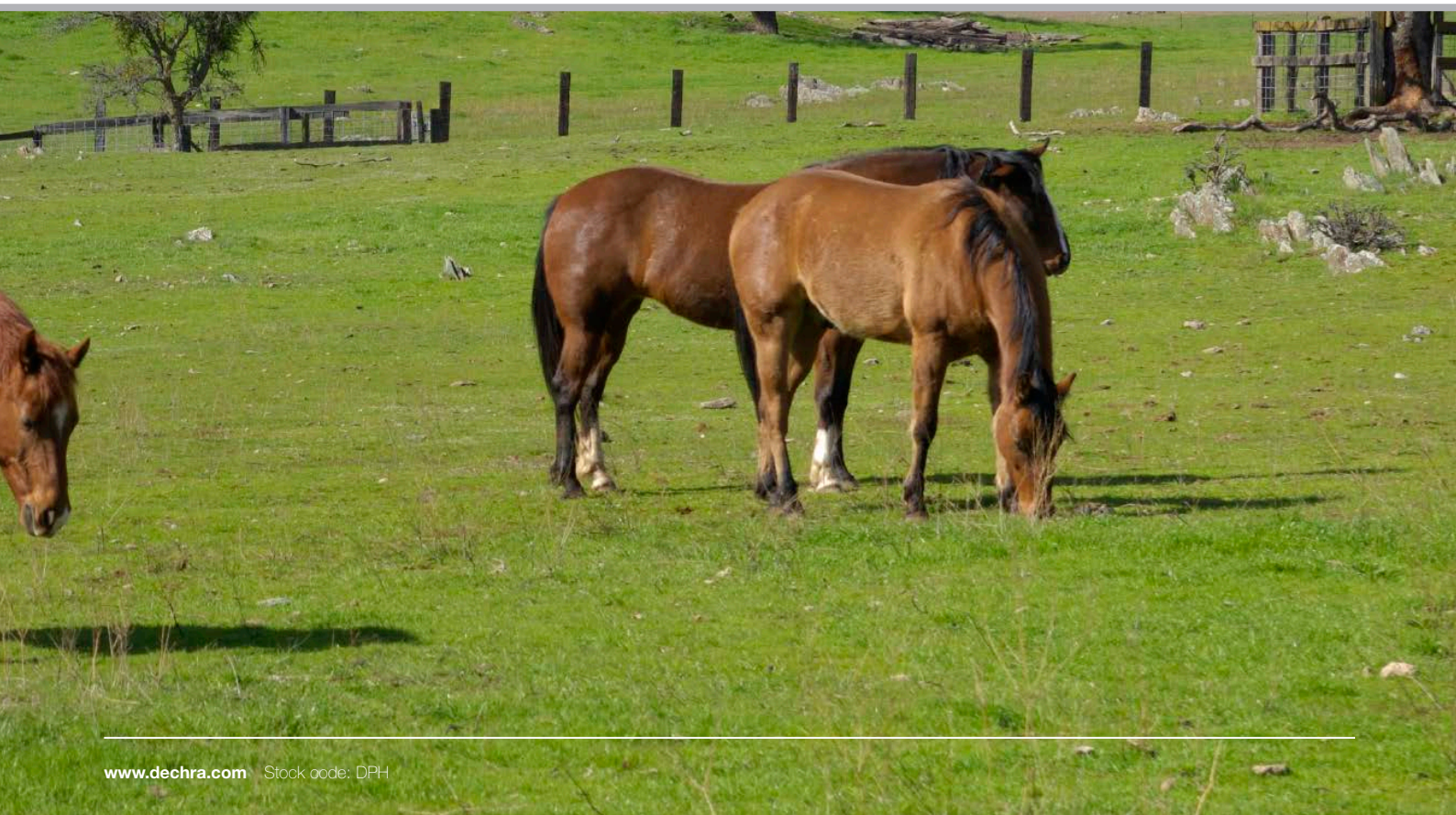
Looking ahead, we are confident that the execution of our strategy will continue to deliver growth. We have a strong balance sheet which allows us to make strategic investments and deliver new products from our pipeline.

We are excited about the imminent launch of *Osphos* and by the potential growth opportunities for our recent acquisition PSPC Inc. These factors, together with revenue and margin growth from geographical expansion in Italy and Canada, and the delivery of further new products, give the Board confidence in the Group's future prospects.

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

Michael Redmond
Non-Executive Chairman
8 September 2014

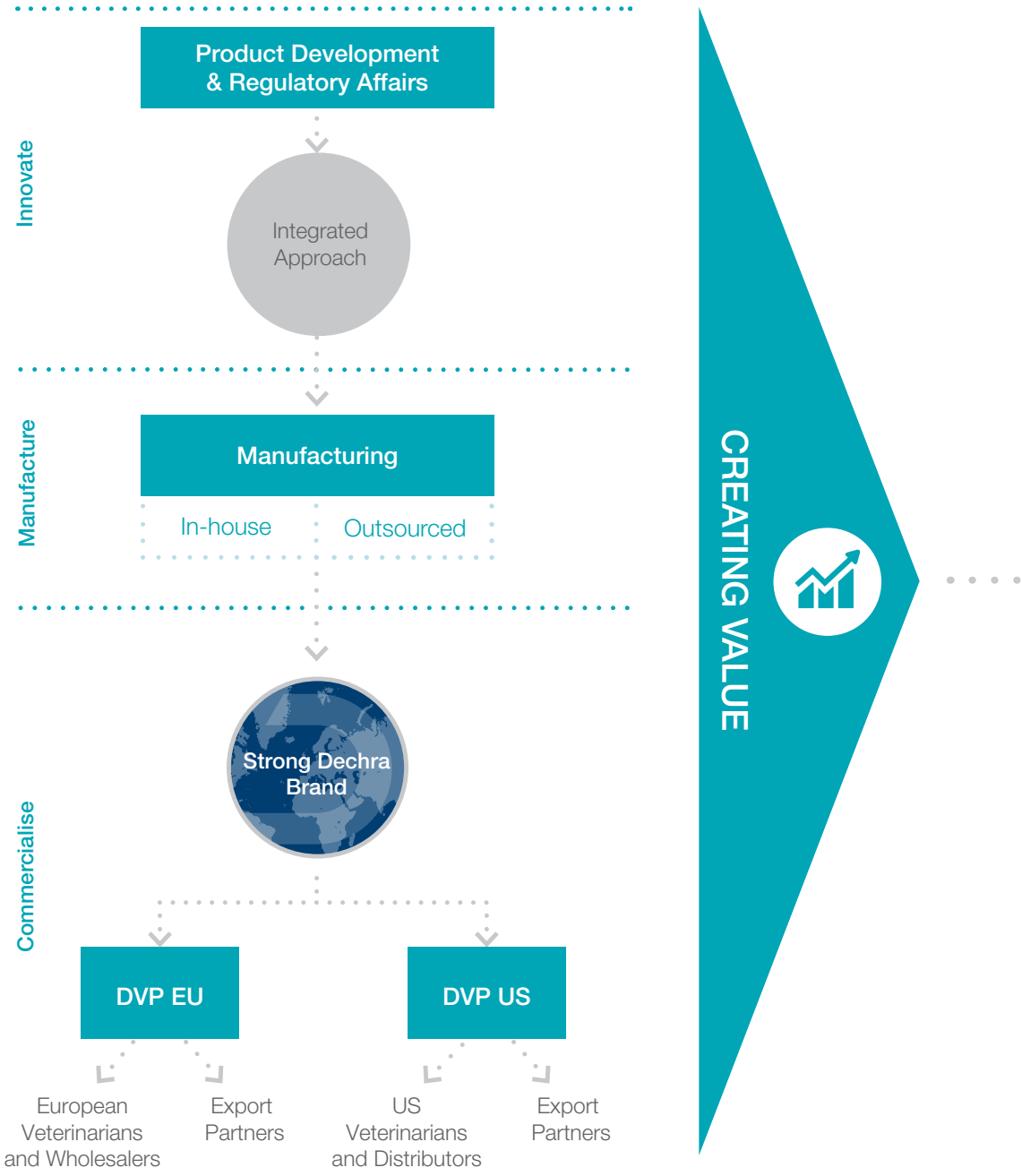
Ian Page
Chief Executive Officer
8 September 2014



Our Business Model

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

- Our market knowledge, regulatory expertise, strong reputation and management experience help us identify potential product development targets, in-licensing deals and acquisition opportunities.
- Our skilled Product Development and Regulatory team develops new products to meet customers' needs and achieves international approvals and registrations.
- Manufacturing, which plays an integral part in the development of the formulation and dosage form, manufactures products as effectively and efficiently as possible to the highest standards of quality.
- Following registration and manufacture of our products, experienced sales and marketing teams in the EU and US market our products directly to veterinary practices and indirectly through export partners.
- This integrated approach of development, manufacturing and sales and marketing creates value for the business and its stakeholders.



Our Business Model Explained

Product Development and Regulatory Affairs

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

A Skilled Team

The PDRA team includes skilled people with expertise and the experience to navigate the hurdles of the development process. Across the four locations, project teams operate to manage the wide range of projects. Investment in state-of-the-art laboratories in Bladel and Skipton, each with their respective dosage form expertise, provides the resources required to develop novel and generic formulations cost effectively.

Delivering the Pipeline

Our product pipeline is critical to our future success. Our novel and generics projects are very diverse, with the majority building on our key therapy areas. We invest when we can identify growth opportunities with a clear financial return and competitive advantage, focusing on novel therapies to treat unmet needs with intellectual property protection. Our approach aims to ensure we create sustainable growth throughout our targeted global markets.

Find out more about **Product Pipeline** on page 25.

Manufacturing

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

One-Stop Shop

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

Production Capabilities

DPM has a wide range of capabilities in terms of dosage form, packaging capabilities and production scale. We can produce low, medium and high volumes of almost all dosage forms to high quality and safety standards. We have great flexibility in producing to demand. Dosage forms include: tablets, capsules, creams, ointments, gels, sterile injectables, low and high volume powders and pre-medicated feeds. We can pack into sachets, tubs, bags, blister packs, tubes, bottles and jars. These capabilities are very important for the production of veterinary products where our licensed portfolio comes in many dosage formats and in various batch sizes. Relative to human pharmaceuticals, veterinary batch runs are often very small. A number of our licensed branded minor products are of such a small scale that it would be difficult to find a third party manufacturer to produce them at a competitive price if we were unable to perform the function in-house.

Product Development

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

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

Contract Manufacturing
In addition to manufacturing our own products, both Skipton and Bladel generate income through contract manufacturing. Although the clear focus is on Group manufacturing, contract manufacturing adds value by making full use of our unique capabilities and our installed capacity. Currently approximately 46% of output by volume is contract manufacturing.

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

DVP EU

Across all territories DVP EU is committed to marketing new products and services that support the work of veterinarians.

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

Our Expertise

We have identified eight core therapeutic sectors where we leverage our expertise: dermatology, ophthalmology, equine medicine, anaesthesia and analgesia, endocrinology, cardiovascular disease, food producing animal antimicrobials and pet diets.

As well as pharmaceuticals and related products, DVP EU sells specialist, therapeutic and maintenance pet diets branded, *Specific*.

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

Routes to Market
Our customers are principally veterinarians; however, in most territories the route to market is through wholesalers and pharmacies. Our products are distributed through a mixture of our own direct sales, wholesalers and national distributor channels.

DVP US

DVP US markets Dechra products for the companion animal and equine segments that solve clinical problems and help veterinarians treat medical conditions.

Our Expertise

Our Dechra brand has gained momentum in the US, building on our strong reputation for customer service, the quality of an expanding product portfolio, further education programmes on our key areas of specialisation and high quality technical support.

Routes to Market
Our customers are primarily small animal and equine veterinarians, of which there are approximately 90,000, working in 26,000 clinics across the country.

In the US, veterinarians and clinics are primarily supplied through distributors. Our sales representatives promote and sell products directly, but also network and visit clinics together with these distributors.

Creating Value by:

01

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

02

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

03

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

04

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

05

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

06

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

07

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

08

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

09

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

10

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

Our Marketplace

$23bn

The global animal health market was valued at $23 billion in 2013, a growth of 3.6% over 2012.

"The growth in Food producing Animal Products has been driven by the rising demand for animal protein due to the increase in the global population and the need for greater farming productivity."

The Global Market

The global animal health market was valued at $23 billion in 2013, a growth of 3.6% over 2012 (at constant currency). The market is made up of two distinct segments, Food producing Animal Products (FAP) (i.e. livestock) and Companion Animal Products (CAP) (i.e. pets), which have different financial profiles.

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

Food Producing Animal Products Market

Market Size

This segment covers products or services targeted at reducing the incidence and spread of disease in livestock. The global medicines and vaccines market for FAP grew by an estimated 3.7% to $13.6 billion in 2013, representing 59% of the overall market.

Growth Opportunities

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

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

Customers

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

Dechra in the Marketplace

FAP represented 18% of our turnover with sales only in EU and emerging markets. Our range of anti-infectives and water soluble powders, targeted mainly for swine and poultry, supports the prudent use of antibiotics.

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

Companion Animal Products Market

Market Size

The global medicines and vaccines market for CAP was estimated at $9.4 billion in 2013, a growth of 3.5%. CAP represents 41% of the overall market. Product categories in this market are anti-parasiticides (i.e. products against ticks, fleas, worms), vaccines, anti-microbials and other pharmaceuticals.

Growth Opportunities

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

Customers

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

Dechra in the Marketplace

We offer a broad range of specialised pharmaceutical products and do not compete in the anti-parasiticides and vaccines markets which are dominated by big pharma. We continue to grow our established brands through frequent interaction with our customers, up-to-date marketing campaigns and technical support. We are also positioning ourselves to capture the growth opportunities in emerging markets where pet ownership is increasing.

Geographical Split

North America and Western Europe account for 60% of global animal health sales. However, other regions are growing rapidly, notably:

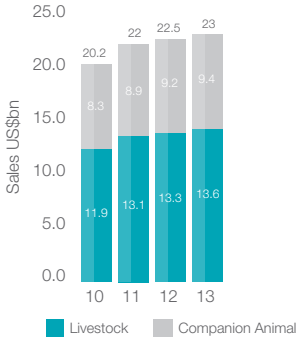
- growth in Eastern Europe is fuelled by the increase in demand for meat, in particular poultry; and
- sales in the rest of the world continue to increase due to economic growth and the increased use of vaccines.

Dechra's International Footprint

Dechra competes in the two largest animal health markets: over 83% of our sales are in Europe, 11% in the US with 6% being in the Rest of the World.

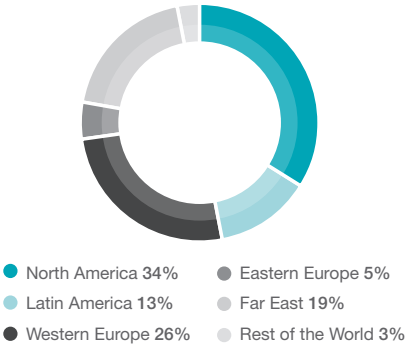
We have a clear strategy to expand our geographical footprint either organically or through acquisitions.

Sales



Source: Vetnosis, Company Reports

Regional Analysis



Source: Vetnosis, Company Reports

$9.4bn

The global medicines and vaccines market for CAP was estimated at $9.4 billion in 2013.

60%

North America and Western Europe account for 60% of total animal health sales.

Our Strategy

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

Pipeline Delivery

Strategic Priorities
- Deliver existing pipeline projects to schedule.
- Work effectively with regulators.
- Continuously refill the pipeline by identifying and evaluating new ideas.

Strategy Description
As a pure pharma player, we must deliver our pipeline on time, at the right costs and with the expected returns. As well as progressing our existing pipeline it is important that we refill the pipeline so that we get a constant flow of novel products in future years.

Objective
We want to innovate and generate sustainable profit growth through our pipeline delivery.

Focus in 2015 Financial Year
- Identify new development candidates.
- Achieve at least one new product approval.
- Launch *Osphos* successfully in the US and UK.

Geographical Expansion

Strategic Priorities
- Grow the US business and invest steadily in the infrastructure as pipeline delivers.
- Short term: establish subsidiaries in new territories with existing critical mass.
- Medium term: build critical mass or enter via acquisition.
- Long term: build a presence, initially through partnerships, where barriers to entry are high.

Strategy Description
The animal health market in emerging countries is growing rapidly due to the demand for high quality protein and the increase in pet ownership. We have identified a number of markets that present both volume and profit opportunities in the medium to long term and we are considering various entry strategies. In the US, we will grow the business organically in the short term with the launch of new products, including *Osphos*.

Objective
We want to seize growth opportunities in new markets through geographical expansion.

Focus in 2015 Financial Year
- Commence trading in Canada.
- Plan further new territory launch.
- Strengthen distributor relationships in identified growth markets.

Portfolio Focus

Strategic Priorities
- Maximise revenue and profit from existing CAP portfolio by focusing on clearly defined therapeutic sectors.
- Develop and grow critical mass of FAP portfolio.

Strategy Description
We are a specialist veterinary pharmaceuticals business focused on Companion Animal, Equine and Food producing Animal Products. Our portfolio is well positioned in our therapeutic focus sectors to ensure we maximise returns. We have recognised that we are underweight in FAP which represents 18% of our revenue. However, there is a clear opportunity to gain critical mass in FAP by extending our geographical reach.

Objective
We want to maintain market leadership in defined therapeutic areas and improve returns through our portfolio focus.

Focus in 2015 Financial Year
- Launch the new *Vetoryl* marketing campaign to grow sales.
- Promote the new Dechra Academy to support veterinarians.
- Increase market share in equine and dermatology sectors.

Acquisition

Strategic Priorities
- Target strategic acquisitions that will expand our geographical footprint and/or enhance product portfolio.

Strategy Description
While our strategy aims to deliver organic growth, acquisitions could accelerate our expansion by providing entry into new geographies, enhancing our portfolio or giving access to new technologies. We have established well-defined criteria through which potential acquisition targets can be screened.

Objective
We want to deliver incremental sales and earnings growth through strategic acquisitions that enhance shareholder value.

Focus in 2015 Financial Year
- Continue to develop relationships with potential targets.
- Improve knowledge of animal health markets in emerging markets.

Our Strategy continued

Manufacturing

Strategic Enablers
- Maintain efficient and effective in-house operations.
- Retain competitive advantage through flexible manufacturing capabilities (wide range of scale and dosage forms).
- Extend FDA approval to new dosage forms.
- Improve supply chain capabilities.

Enablers Description
Our current in-house manufacturing capabilities are extensive. Our flexibility in product dosage forms and scale capabilities combined with our ability to prioritise the supply of our own products make manufacturing integral to the Group strategy. We are focused on running the operations efficiently and to high standards to maintain or improve gross margins.

Objective
We want to maintain a flexible manufacturing capability to deliver small volumes at a competitive price and at the right quality.

Focus in 2015 Financial Year
- Improve supply chain effectiveness.
- Continue to drive quality and efficiency.
- Achieve FDA approval for new pipeline products.

Technology

Strategic Enablers
- Improve operating efficiency and processes through the Group-wide implementation of Oracle and other applicable systems.
- Maximise and exploit new technologies wherever possible.

Enablers Description
We are implementing a strong technology platform to ensure we operate efficiently and are exploring how IT can provide a source of competitive advantage.

Objective
We want our IT strategy to improve our communication, financial and operational capabilities.

Focus in 2015 Financial Year
- Continue roll out of Oracle with Group Finance consolidation and DVP EU implementation.

People

Strategic Enablers
- Strengthen the Dechra culture and ensure our Values encompass our business ethics and our standards.
- Attract, retain and develop talent.
- Develop effective succession plans to ensure business continuity.

Enablers Description
Our people strategy underpins everything we do in the business. Following the appointment of a new Group HR Director, we have a well-defined plan to develop and build talent, develop people and strengthen the Dechra culture.

Objective
We want to continue to be a high performing business driven by highly skilled and committed teams.

Focus in 2015 Financial Year
- Develop the succession plans for the leadership team and the next tier of management.
- Continue roll out of Performance Development Review.

Find out more about People, Culture and Values on pages 32 to 34.

View further content on our website: www.dechra.com

How We Develop New Products

Although some products may have a slightly different path, most novel and generic products follow a fairly standard process containing five phases, defined as: Exploratory, Pre-Clinical, Clinical, File/Submission and Launch.

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

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

Generating Ideas

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

Making the Chemistry Work

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

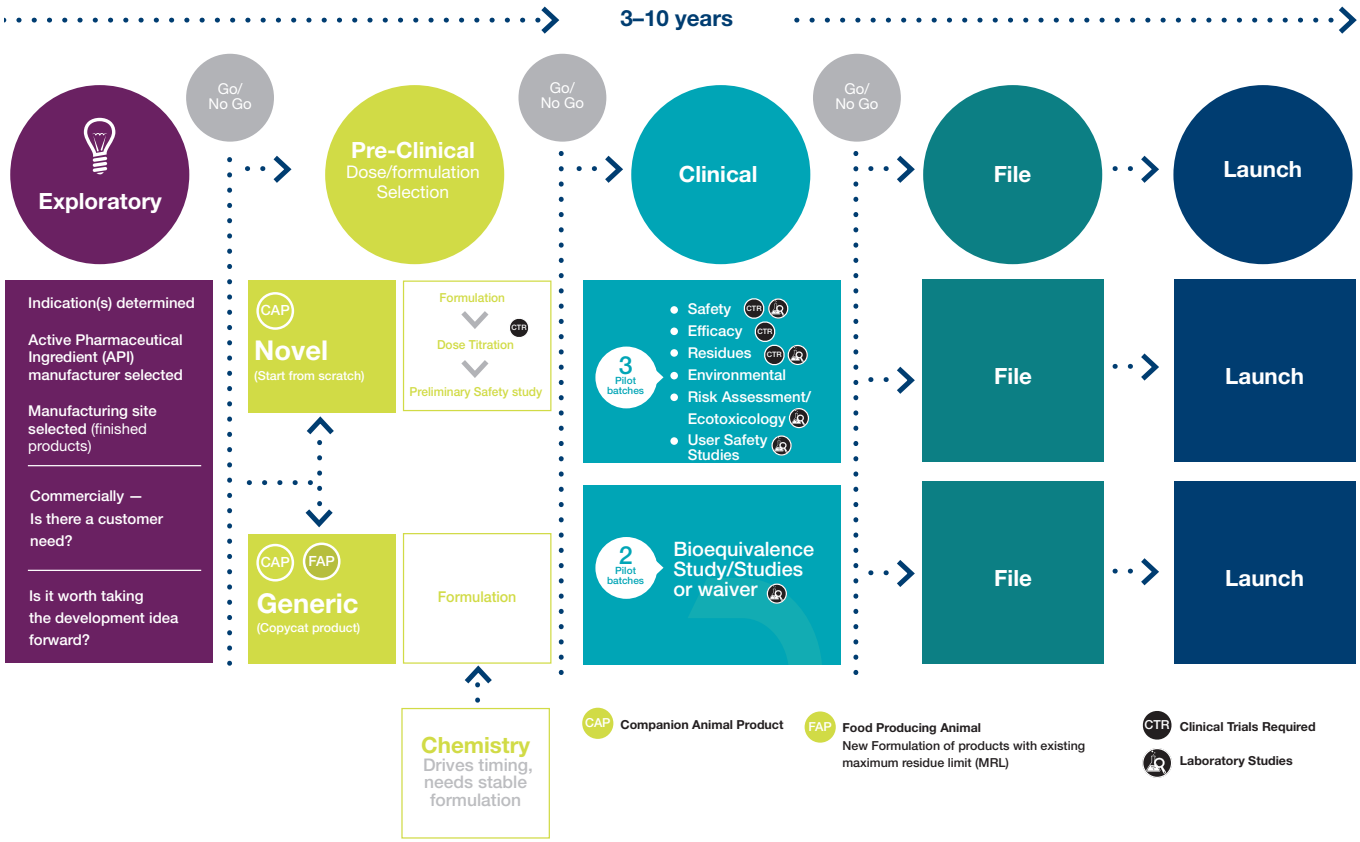
Entering Clinical Trials

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

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

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

How We Develop New Products continued



Find out more about Our Business Model on page 14.

Product Pipeline

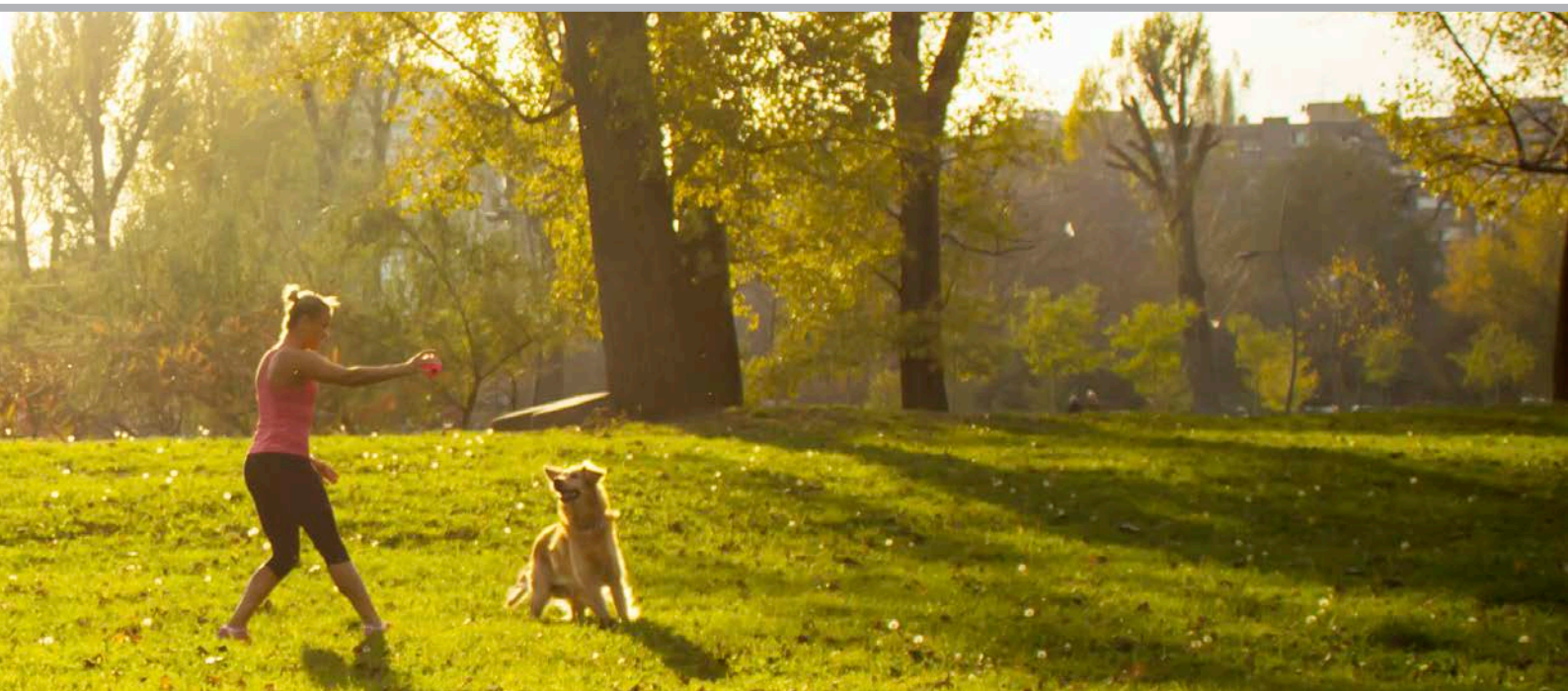
A key strategic priority for the Group is the delivery and strength of the pipeline. The following chart outlines the timeline, status and progress of the major projects. Collectively the pipeline is expected to deliver in excess of £40 million annual sales assuming all products reach maturity.

First Expected Launch(1)	Therapeutic Category	Species	Territory	Manufacturing	Pre-Clinical	Clinical	File
2014	Lameness(2)	Horse	International	Outsourced		●	● ○
2015	Anti-microbials	Several	EU	Outsourced			● ○
	Endocrinology(3)	Dogs	International	In-house		●	○
	Anti-microbials	Poultry	EU	In-house			*
	Endocrinology	Dogs	EU	Outsourced		○	● ○
2016	Anti-microbials	Several	EU	In-house			*
	Endocrinology(3)	Dogs	International	In-house		●	○
2017	Anti-microbials	Cattle	EU	In-house		● ○	
	Dermatology	Dogs	International	In-house	●	○	
	Anti-microbials	Poultry	EU	In-house	*		
2018+	Ophthalmology	Dogs	International	Outsourced	● ○		
	Anti-microbials	Poultry	EU	In-house			● ○
	Cardiovascular	Dogs	EU	In-house	●	○	
	Endocrinology	Cats	International	Outsourced	○	●	
	Endocrinology	Dogs	International	In-house	*		
	Dermatology	Dogs	US	In-house	● ○		

Key: ● Previous Year ○ Current Year * New

(1) Calendar year (2) *Osphos* (3) Identical product with first launch in EU and subsequent launch in US

The first expected launch date is a management estimate that may not be met due to regulatory, manufacturing or other issues.



Key Products and Specialisations

Dechra's product range is focused on several major therapeutic categories, predominantly for companion animals. The majority of key products are novel or have clear marketing advantages over competitor products. Several products have market leading positions in a number of major territories.

Dermatology and Care

Topical antimicrobial products are important to treat skin and ear infections. We have a wide range of products that can be used alone or as an adjuvant therapy.

Canaural was first licensed in 1975 and is still the leading first line treatment for otitis externa in cats and dogs in several EU territories. *Canaural*, which is now registered in 27 countries, can also be used in conjunction with our leading ear cleaning product *CleanAural*®.

Fuciderm®, licensed in 1995, is the only licensed product for the treatment of surface pyoderma in dogs, such as acute moist dermatitis and intertrigo. It is a key product within our dermatology range, selling into 23 countries.

Malaseb, was first licensed in 1996 and is still the market leading medicated shampoo for cats and dogs. It is used to treat skin diseases caused by Malassezia and staphylococcal infections.

Animax, licensed for the treatment of skin conditions in dogs and cats, is only approved in the US. The marketing rights for this product were acquired in May 2007. This product is currently unavailable due to third party supply issues.

DermaPet® is a range of shampoos, conditioners and ear products to treat numerous skin and ear conditions in dogs and cats. Key brands are Triz, MalAcetic, Malaket and MiconaHex+Triz.

The Care range comprises unlicensed products which complement our pharmaceutical range. They are available over the counter within veterinary practices. The three key products are *CleanAural,* a non-irritant cleaner suitable for frequent use in ears producing excess wax, Neutrale™, a range of specialist shampoos for skin conditions in dogs, and *Lubrithal*®, an eye lubricant for cats and dogs.

Why we focus on this niche area:
Dermatology represents approximately 20% of veterinarians' clinical time and is currently a major focus area for the industry. Best practice and management techniques look to adopt more topical products as opposed to oral treatments, with the aim of utilising antibiotics less frequently. Dechra's product portfolio, with its range of licensed and non-licensed topical products, is well positioned for this approach.

Ophthalmology

Ophthalmology is an area of veterinary medicine where we have a number of leading products including licensed pharmaceuticals and unlicensed care products.

Fucithalmic Vet, licensed in 1993, is the only product available for the treatment of conjunctivitis associated with staphylococcal infections. It is highly effective because of its unique sustained release formulation that ensures prolonged retention within the eye. It is currently licensed in 21 countries.

Additionally, we market a range of ophthalmic products in the US, the majority being the only veterinary licensed products in the market. *Vetropolycin* and *Vetropolycin HC* were relaunched at the end of our financial year after successfully completing the transfer to a new manufacturing site.

Why we focus on this niche area:
Eye conditions are very common and can result in severe complications. Recent evidence suggests that 7% of kittens, 2% to 3% of adult cats and 2% to 4% of dogs are presented to veterinarians with ocular inflammation.

Equine Medicine

The Group has a wide range of licensed products supporting the equine veterinarian. The leading product with the highest sales is *Equipalazone*® which is licensed in five major EU countries.

Equipalazone was first licensed in a sachet presentation in 1972 and subsequently in paste and injection presentations. It continues to be the leading non-steroidal anti-inflammatory drug (NSAID) for the treatment of musculoskeletal disorders, such as lameness arising from acute and chronic laminitis in horses.

Equidone® Gel was approved in 2010 for the treatment of fescue toxicity in horses. This niche product is targeted specifically at the US market.

HY-50 is used for intra-articular and intravenous treatment of lameness in horses caused by joint dysfunction. The acquisition of this product, in January 2012, strengthened Dechra's position in equine pain management in several major European territories.

Domidine® is an injectable used for the sedation and slight analgesia of horses and cattle, to facilitate physical examinations and treatment, such as minor surgical interventions.

Why we focus on this niche area:
This is a sector in which few animal health companies specialise. We target both performance horses and hobby horses and have developed a comprehensive range of medically necessary products that give us access to equine veterinarians.

Anaesthesia and Analgesia

Dechra has a wide range of products that support emergency medicine, pain relief and sedation.

The *Vetivex* range of infusion fluids are licensed for the treatment of dehydration. They are widely used to meet normal fluid and electrolyte requirements when fluids cannot be given orally, such as during surgery.

Anaesthesia and analgesia are major sub-groups of critical care. Dechra markets one of the largest ranges of products in this sector. The range covers a wide number of species, different degrees of pain intensity management and duration of effect. Within the range there are a number of unique licenses, *Intra Epicaine*®, a local anaesthetic recommended for infiltration, nerve block, intra-articular and epidural anaesthesia in horses, *Comfortan*, the only licensed methadone hydrochloride for analgesia in dogs and cats, and *Fentadon*®, the only licensed fentanyl for intra-operative analgesia and post-operative pain management.

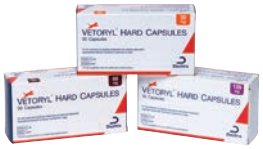
Sedator is licensed for sedation, analgesia and anaesthetic pre-medication and contains the active ingredient medetomidine hydrochloride.

Atipam is a selective a2-antagonist receptor which reverses the sedative effects of medetomidine and dexmedetomidine in cats and dogs.

Other products in the range include *Buprenodale* (buprenorphine), Ketamin (ketamine hydrochloride) and Plegicil (acepromazine maleate). We have also recently acquired *Phycox*, a pain management nutraceutical.

Why we focus on this niche area:
Perioperative sedation and pain management are challenging but critical for all patients and form a fundamental part of animal welfare. Offering a comprehensive range of analgesic and anaesthetic products allows the veterinarians to adapt their protocols to the individual pet based on their level of discomfort, whilst providing flexible anaesthetic procedures.

Endocrinology



Endocrine disorders are a key focus for the business with a number of unique licensed products treating a range of chronic diseases. The three leading brands are *Vetoryl*, *Forthyron* and *Felimazole*.

Vetoryl is a novel product for the treatment of Cushing's syndrome (excess cortisol or hyperadrenocorticism) in dogs. It is estimated that about 0.2% of dogs suffer from Cushing's disease. It is marketed internationally and is the only recognised licensed efficacious veterinary product for the treatment of Cushing's syndrome around the world.

Forthyron is licensed to treat the most widely recognised endocrine disorder, canine hypothyroidism. It is the only mutually recognised levothyroxine treatment in Europe and is marketed in all the major European countries. It is estimated that about 0.6% of dogs suffer from this disorder.

Felimazole was the first veterinary licensed product for the treatment of feline hyperthyroidism, which occurs in approximately 0.5% of cats. Originally licensed in the UK in 2002, *Felimazole* was then licensed in the EU in 2005, the US in 2009 and has subsequently been approved in Canada.

Why we focus on this niche area:
Endocrine disease stems from imbalance in hormone levels, affecting cats or dogs in many ways, often requiring lifetime medical attention. Many endocrine disorders are fatal if not diagnosed and treated. Veterinarians place a high importance on quality of life and often see endocrinology as a challenging and interesting discipline.

Generics

Several generic products are sold within the EU; we are in the process of in-licensing and registering additional products to expand our branded generic range within this territory.

Why we focus on this niche area:
We develop generics to provide comprehensive ranges of products in our key therapeutic sectors, where possible providing our veterinary customers with complete solutions.

Key Products and Specialisations continued

Cardiovascular Disease

This was a new area of focus following the acquisition of *Eurovet*. *Cardisure* is the leading product in this category. The principal ingredient in *Cardisure* is pimobendan. It is a leading treatment for canine congestive heart failure and is marketed throughout Europe.

Why we focus on this niche area:
As pets increasingly live longer, managing heart disease efficiently is critical. This is our only major product in this category.

Food Producing Animal Antimicrobials

Dechra has a superior range of antimicrobial treatment products predominantly for swine and poultry. In a market where there is increased emphasis on reducing the usage of antibiotics in the food producing animal sector, it is essential that reliable and effective products are available to veterinarians to support them in the prudent use of antibiotics. The *Solustab*® range has been specifically developed to meet this need and is renowned for its high level of solubility leading to a reliable and stable solution when added to drinking water. This reduces the need for additional enhancing agents widely used by competitor products.

Octacillin®, marketed since 2003 in the Netherlands, is sold in 15 European countries following approvals in 2006 and 2011. *Octacillin* is a highly soluble and stable antibiotic powder containing amoxicillin which is added to drinking water in the treatment of diseases in swine and poultry. It is highly efficient and often used in treating Dysbacteriosis in broilers and S.suis in pigs, two diseases with high incidence levels.

Soludox®, marketed in Benelux since 2002, is a highly soluble antibiotic powder for administration via drinking water and is currently sold in 16 European countries as a result of approval, in 2010, for swine and chickens. The active ingredient is doxycycline and its main indication is for respiratory disease in pigs.

Methoxasol® is a ready to use liquid medication, which can be easily added to the drinking water of swine and poultry; it has been marketed in the Netherlands since the mid 1990s. Following successful European approvals in 2000, 2009 and most recently in 2012, this highly soluble liquid is now marketed in 15 EU countries. The active ingredients are sulphamethoxasol and trimethoprim, a proven synergistic combination for antimicrobial effectiveness against E.coli in broilers and App in swine.

Cyclospray® is the leading antibiotic spray treatment in Europe for claw/hoof infections, interdigital dermatitis (foot rot) in sheep and digital dermatitis in cattle. It is widely used in the prevention of infection of superficial traumatic or surgical wounds in cattle, sheep and pigs. *Cyclospray* has been marketed since 2000 in 12 European countries. The active ingredient is chlortetracycline.

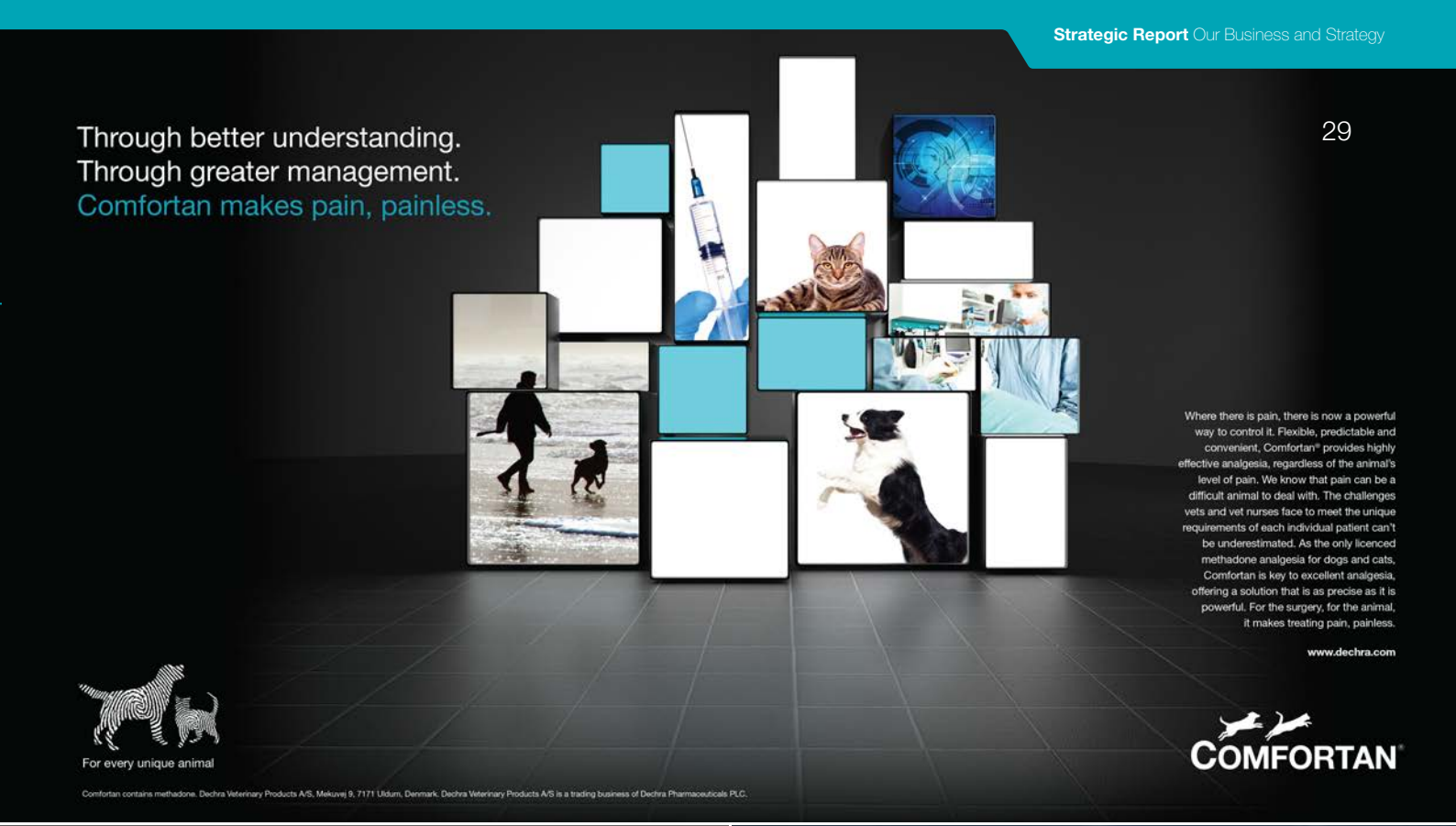
Solacyl® is a non-steroidal anti-inflammatory drug containing sodium salicylete. It is an effective tool to fight fever in early disease stages.

Why we focus on this niche area:
FAP is the largest segment of the global animal health market, accounting for almost 60% of sales. While there is pressure on antibiotic prescribing in the EU and the US, the increased demand for high quality protein in the rest of the world continues to drive the demand for antibiotics.

Pet Diets

Dechra has two main cat and dog diet product ranges, both branded *Specific*, which are sold exclusively through veterinary practices. Therapeutic diets, which represent approximately 62% of overall diet sales, provide optimum levels of nutrition in areas such as diabetes, arthritis, urinary, kidney, liver and heart problems. Life stage or maintenance diets, which represent approximately 38% of diet sales, provide premium quality daily nutrition for healthy dogs and cats.

Why we focus on this niche area:
Good quality nutrition leads to good quality of life for pets and veterinarians are best placed to offer nutritional advice. Through having a range of nutritional products, along with licensed and non-licensed medicines, we are able to offer more holistic solutions to the veterinarians to manage their patients in the most appropriate manner.


Through better understanding.
Through greater management.
Comfortan makes pain, painless.
Where there is pain, there is now a powerful way to control it. Flexible, predictable and convenient, Comfortan® provides highly effective analgesia, regardless of the animal's level of pain. We know that pain can be a difficult animal to deal with. The challenges vets and vet nurses face to meet the unique requirements of each individual patient can't be underestimated. As the only licenced methadone analgesia for dogs and cats, Comfortan is key to excellent analgesia, offering a solution that is as precise as it is powerful. For the surgery, for the animal, it makes treating pain, painless.
www.dechra.com
For every unique animal
COMFORTAN®
Comfortan contains methadone. Dechra Veterinary Products A/S, Mekuvej 9, 7171 Uldum, Denmark. Dechra Veterinary Products A/S is a trading business of Dechra Pharmaceuticals PLC.


Dechra
The day they can control hypothyroidism isn't far away.
Forthyron®
BETTER TIMES AHEAD


Dechra
FELIMAZOLE®
A problem precisely answered
From treatment to recovery,
precise control, every step of the way.


Dechra
Veterinary Products
From a dog once lost, a new vitality found.
In every dog with Cushing's syndrome there is an opportunity to bring back health and restore life. Vetoryl's greater dose flexibly allows you to quickly take back control. For the owners and their family, it marks the return of the healthy dog they thought they'd lost. A true transformation in quality of life, whether you're on four legs, or two.
www.dechra.com
VETORYL®
Life restored on every level
Vetoryl contains Trilostane.
Dechra Veterinary Products A/S, Mekuvej 9, 7171 Uldum, Denmark.
Dechra Veterinary Products A/S is a trading business of Dechra Pharmaceuticals PLC.

International Footprint

We currently have our own sales and marketing organisations in 13 Western European countries and in the US. We also market products in over 40 countries worldwide through distributors and marketing partners. A number of these countries are currently being evaluated to assess the opportunity to extend our own sales and marketing capabilities thereby maximising returns for the Group. The map below shows the key products in our focused therapeutic areas in territories where we have sales and marketing organisations.

01. United Kingdom	Key Products
Endocrinology	●
Dermatology	●
Ophthalmology	●
Equine	●
Cardiovascular Disease	●
Anaesthesia and Analgesia	●
Food producing Animal Products	●
Nutrition	●

02. Ireland	Key Products
Endocrinology	●
Dermatology	●
Ophthalmology	●
Equine	●
Cardiovascular Disease	●
Anaesthesia and Analgesia	●
Food producing Animal Products	●
Nutrition	●

03. United States	Key Products
Endocrinology	●
Dermatology	●
Ophthalmology	●
Equine	●
Nutrition	●

04. Portugal	Key Products
Endocrinology	●
Dermatology	●
Ophthalmology	●
Equine	●
Cardiovascular Disease	●
Anaesthesia and Analgesia	●
Food producing Animal Products	●
Nutrition	●

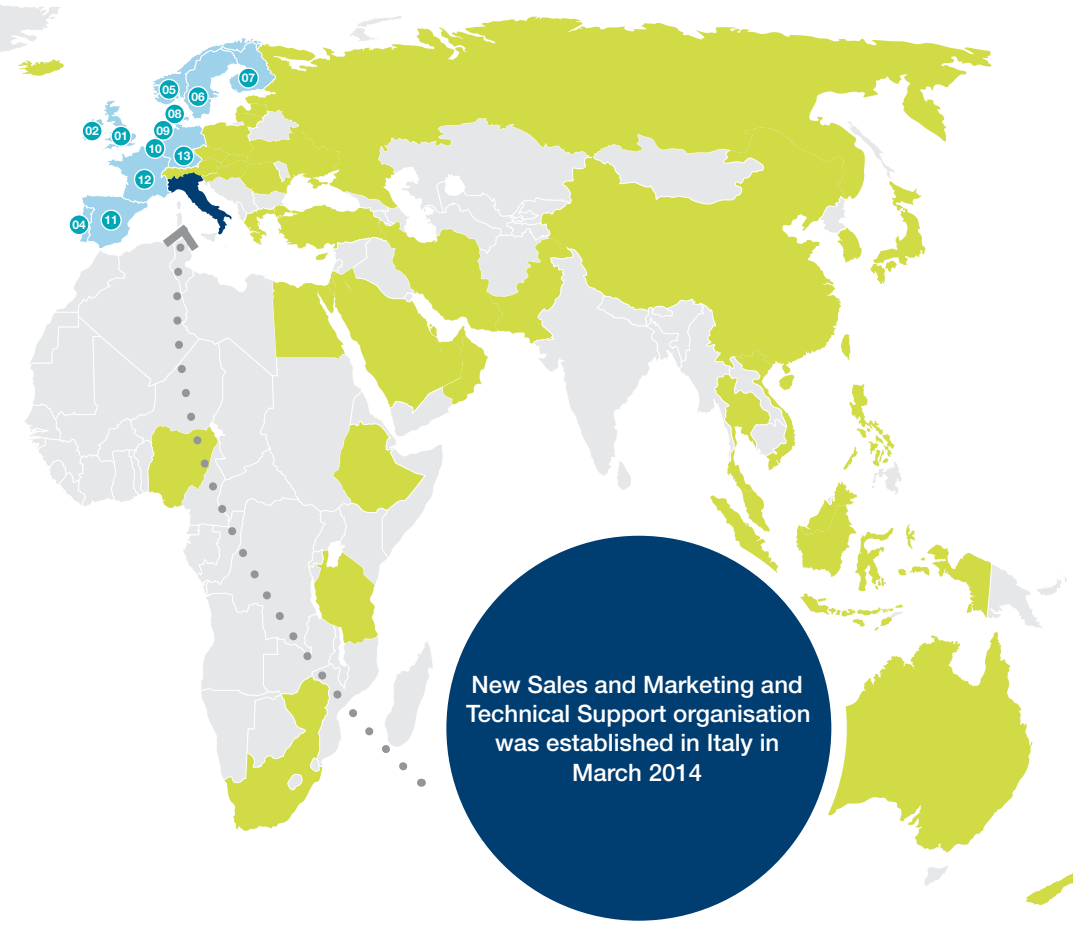
Country Key
European Pharmaceuticals
US Pharmaceuticals
Export

Product Key
● Complete product range
● Some key products not registered
● Not yet active

05. Norway	Key Products
Endocrinology	●
Dermatology	●
Ophthalmology	●
Equine	●
Cardiovascular	●
Anaesthesia and Analgesia	●
Food producing Animal Products	●
Nutrition	●

06. Sweden	Key Products
Endocrinology	●
Dermatology	●
Ophthalmology	●
Equine	●
Cardiovascular	●
Anaesthesia and Analgesia	●
Food producing Animal Products	●
Nutrition	●

07. Finland	Key Products
Endocrinology	●
Dermatology	●
Ophthalmology	●
Equine	●
Cardiovascular	●
Anaesthesia and Analgesia	●
Food producing Animal Products	●
Nutrition	●



New Sales and Marketing and Technical Support organisation was established in Italy in March 2014

08. Denmark	Key Products
Endocrinology	●
Dermatology	●
Ophthalmology	●
Equine	●
Cardiovascular Disease	●
Anaesthesia and Analgesia	●
Food producing Animal Products	●
Nutrition	●

09. Netherlands	Key Products
Endocrinology	●
Dermatology	●
Ophthalmology	●
Equine	●
Cardiovascular Disease	●
Anaesthesia and Analgesia	●
Food producing Animal Products	●
Nutrition	●

10. Belgium	Key Products
Endocrinology	●
Dermatology	●
Ophthalmology	●
Equine	●
Cardiovascular Disease	●
Anaesthesia and Analgesia	●
Food producing Animal Products	●
Nutrition	●

11. Spain	Key Products
Endocrinology	●
Dermatology	●
Ophthalmology	●
Equine	●
Cardiovascular Disease	●
Anaesthesia and Analgesia	●
Food producing Animal Products	●
Nutrition	●

12. France	Key Products
Endocrinology	●
Dermatology	●
Ophthalmology	●
Equine	●
Cardiovascular Disease	●
Anaesthesia and Analgesia	●
Food producing Animal Products	●
Nutrition	●

13. Germany	Key Products
Endocrinology	●
Dermatology	●
Ophthalmology	●
Equine	●
Cardiovascular Disease	●
Anaesthesia and Analgesia	●
Food producing Animal Products	●
Nutrition	●

People, Culture and Values

Our People

It is due to the hard work, commitment and talent of Dechra's employees that the Group continues to grow. Key to enabling our people to develop and perform is the leadership of the Group.

Following the divestment of the Services Segment on 16 August 2013, the SET was established to lead the development and implementation of the business strategy. Reporting to Ian Page, Chief Executive Officer, the team comprises Anne-Francoise Nesmes, Chief Financial Officer, Tony Griffin, Managing Director DVP EU, all of whom are also part of the main Board, joined by Zoe Goulding, Company Secretary, Susan Longhofer, Group Director, Product Development and Regulatory Affairs, Mike Eldred, President North America, Mike Annice, Managing Director, Manufacturing, Allen Mellor, Group IT Director, and Katy Clough, Group HR Director.

Susan Longhofer, Group Director, Product Development and Regulatory Affairs

Susan joined Dechra in 2005. A veterinarian with over 25 years' experience in the industry, she leads a team of over 50 staff around the globe responsible for a research and development programme that ensures we deliver our pipeline of new international product approvals. Balancing the strategic needs of diverse parts of the world, Susan is well versed in leading multi-national teams. Prior to joining Dechra, Susan worked for Virbac Corporation, Heska Corporation and Merck Research Laboratories.

Susan holds an MS and DVM in Veterinary Science and is a Diplomate, American College of Veterinary Internal Medicine.

She is located in Kansas, US.

Mike Annice, Managing Director, Manufacturing

With 24 years' experience at Dechra, Mike has been a key member of the senior management team having played a role in some of the notable events in our history including the MBO that formed Dechra Holdings, the flotation of the Company in 2000, site expansion adding manufacturing capability to our plant in Skipton and the acquisitions of manufacturing plants in the Netherlands and the US. He recently oversaw FDA approval of the Skipton manufacturing facility. Responsible for around 42% of the Dechra workforce across two manufacturing sites, he has significant experience of leading and managing multi-site teams in high quality environments.

Mike has a BSc Hons in Pharmacy, is a Member of the Royal Pharmaceutical Society and has Qualified Person status.

He is located in Skipton, UK.

Mike Eldred, President US

Mike joined Dechra in 2004 and is responsible for Dechra Veterinary Products' North American business. Mike has more than 20 years' experience in the animal health sector, having held senior positions in business development, sales and operations at Virbac Corporation, Fort Dodge Animal Health and Sanofi Animal Health. As our first employee in the US, he has built the US team to 54 people and with a strong Dechra culture has grown sales revenue to £21 million. Mike has also been involved in several commercial agreements and acquisitions for the Group including Pharmaderm, *DermaPet* and Phycox Animal Health.

Mike has a BA in Business, and an MBA.

He is located in Kansas, US.

Zoe Goulding, Company Secretary and Solicitor

Zoe joined Dechra in 2007. In addition to her Board responsibilities, she is also responsible for a variety of areas covering legal governance and compliance aspects across the business.

As Company Secretary, Zoe holds a unique position within the Company acting as a key point of contact for the Chairman, Senior Management and shareholders. This allows Zoe to have a broad understanding and insight of the workings of the Group as a whole.

She is located at Head Office, Northwich, UK.

Allen Mellor, Group IT Director

Allen joined Dechra in 2012 and has developed and implemented a new Group IT strategy during this time.

During the last 20 years, Allen has gained a breadth of experience from the implementation of diverse business solutions across multiple industry sectors including Justice, Education, Energy, Distribution and Retail. Having held several senior management positions encompassing software development, IT service provision and IT strategy, his last role was as Head of IT for the BSS Group PLC, a leading plumbing and heating distribution company.

Allen is currently responsible for all Group IT support to a multitude of internal customers.

He is located at Head Office, Northwich, UK.

Katy Clough, Group HR Director

The most recent recruit to the team, Katy joined in April this year from AppSense Ltd where she was the Vice President of HR Europe and Rest of the World. With over 15 years operating at Director level within Software, Health, Travel and Finance industries, Katy brings with her a wealth of HR expertise gained in both blue chip corporates and smaller entrepreneurial companies. She has strong international, leadership and M&A experience and has taken responsibility for driving the global people agenda for the Dechra Group.

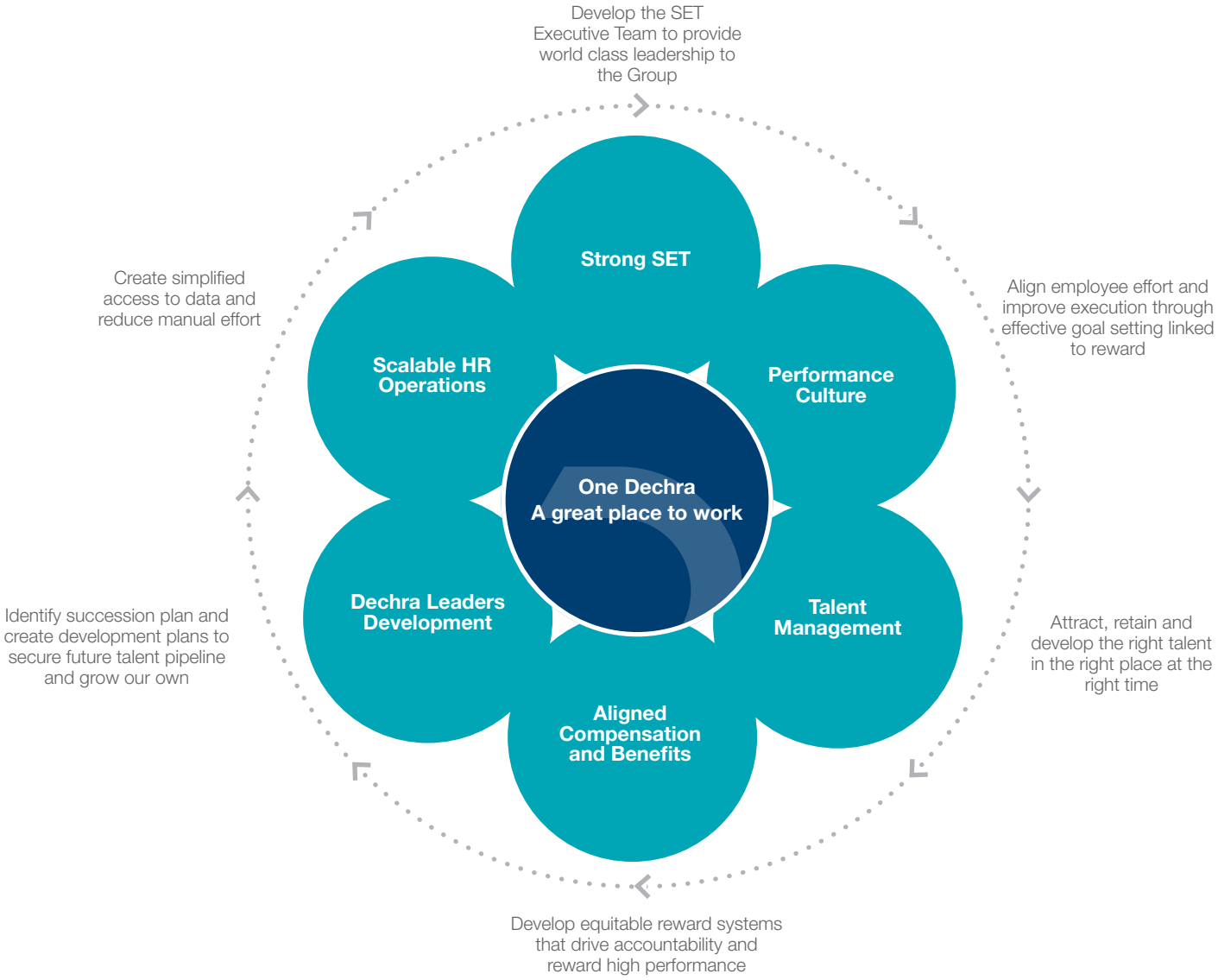
She is located at Head Office, Northwich, UK.

People, Culture and Values continued

Our People Plan

The appointment of Katy Clough as the Group HR Director towards the end of the 2014 financial year has prompted a review of our HR plan to drive the delivery of the business strategy through our people.

The primary objective is to enable a company that drives innovation, customer, and shareholder value, joint accountability, and shared success through execution of the following plan:



Our people agenda is a key enabler to our strategy; we have a roadmap to execute our plan over the next few years. Two years ago significant steps were taken with the establishment of a new pilot Performance Development Review. A further evolution of this programme is currently being rolled out that cements the link between an individual's accountability and delivery of our strategic plans.

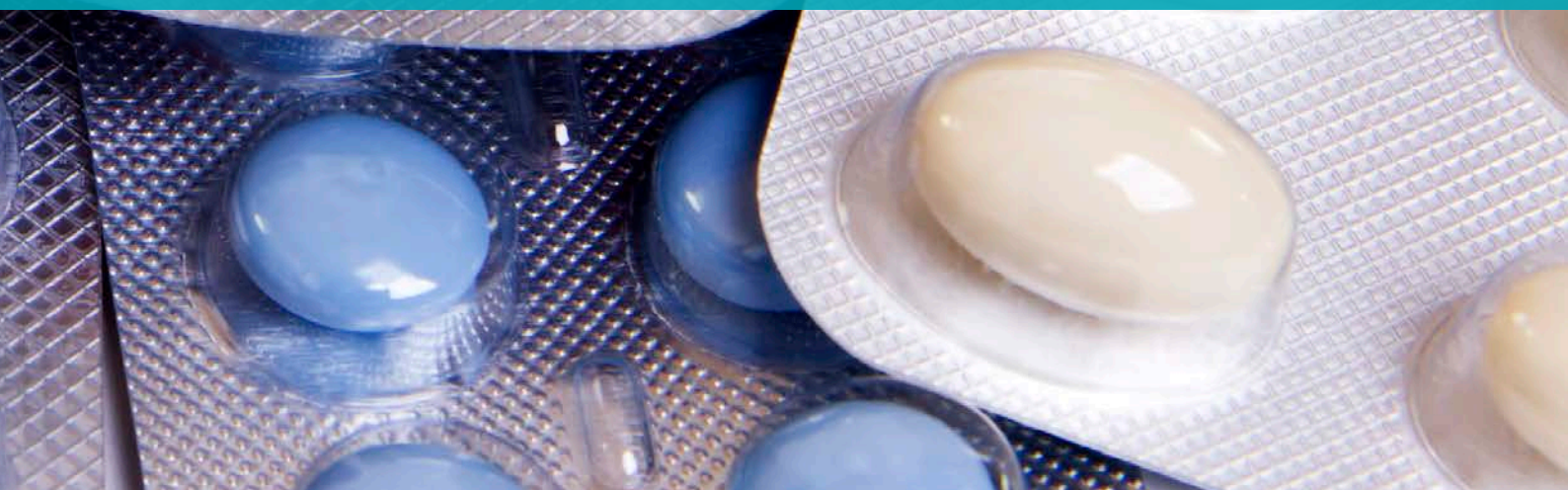
Work to determine the Dechra Values was carried out during the 2013 financial year; the Values are increasingly embedded into the way we do things in the Group, and provide a stable foundation for all people related initiatives to be built upon.

"It is due to the hard work, commitment and talent of Dechra's employees that the Group continues to grow."

02
Strategic Report

Dechra®
Pharmaceuticals PLC

Our Performance



Financial Review

Anne-Francoise Nesmes
Chief Financial Officer

"We delivered underlying operating profit of £42.2 million, representing a growth of 7.2% compared to the previous year."

Find out more about Our Financials on pages 121 to 169.

View further content on our website: www.dechra.com

After several years of progressive organic growth and successful acquisitions, our 2014 financial year was predominantly a year of consolidation during which we implemented several improvement projects to support the execution of our four strategic growth drivers. During the year we achieved a balance between revenue growth and investments to support our strategic ambitions whilst delivering profit growth and improved operating leverage.

When presenting our financial results, we use a number of adjusted measures which are used by management in reporting and planning discussions. These measures are reconciled to the financial results reported under IFRS on page 41.

- Underlying results reflect the Group's trading performance excluding amortisation of acquired intangibles, non-underlying charges and other one-off events such as restructuring and acquisition costs.
- All growth rates for both underlying and non-underlying results included in this review are at constant exchange rates (CER) unless otherwise stated. This shows the year-on-year growth as if exchange rates had remained the same as in the previous year.
- All numbers are presented on a continuing operations basis. The divested Services Segment is shown as discontinued operations in accordance with IFRS.

Overview of Underlying Financial Results

We delivered underlying operating profit of £42.2 million, representing a growth of 7.2% compared to the previous year. This was achieved through a combination of modest revenue growth, improvement in margins and investments in strategic areas.

	2014 £m	2013 £m	Reported currency	Constant currency
Revenue	**193.6**	189.2	2.3%	1.6%
Gross profit	**107.7**	100.7	7.0%	6.5%
Gross profit %	**55.6%**	53.2%		
Underlying operating profit	**42.2**	39.1	7.9%	7.2%
EBIT %	**21.8%**	20.7%		
Underlying EBITDA	**46.2**	42.8	7.9%	7.2%
Underlying diluted EPS (p)	**36.32**	29.07	24.9%	23.9%
Dividend per share (p)	**15.40**	14.00	10.0%	10.0%

A reconciliation to reported results is shown on page 41.

Revenue

Total revenue grew by 1.6% to £193.6 million. Our growth accelerated to 4.0% in the second half from a decline in the first half of 0.7% (compared to the same period last year).

Revenue by Segment

European Pharmaceuticals Segment revenue grew by 1.0% to £172.4 million as a good performance in all markets was offset by very disappointing sales in the Netherlands. The decline in this market was due to competitive pressure and reduced use of antibiotics. We have taken actions to address the situation.

Revenue in our US Pharmaceuticals Segment grew by 6.8% to £21.2 million. Our key products performed strongly with an increase of 24.3% for *Vetoryl,* 18.7% for *Felimazole* and 10.5% for *DermaPet*. There were no sales of *Animax* in 2014 (2013: £1.5 million) due to previously reported supply issues. This reduced overall US growth by 9 percentage points.

Revenue by Categories

Overall the performance across our major product categories has been adversely affected by a decline in FAP sales.

CAP grew by 3.7%. As stated in the Chairman's and Chief Executive Officer's Statement on pages 8 to 9, all our key products performed well. However *Vetoryl* sales momentum in Europe slowed down compared to the prior year due to phasing of sales in Italy and the unavailability of a third party drug necessary to diagnose Cushing's disease. It is also worth noting that our generics defence strategy for *Felimazole* proved successful, except in the Netherlands.

Given the increasing importance of and our focus on our Equine product portfolio, we are pleased to report growth of 13.6% driven by the uptake in *HY-50*, a drug for lameness caused by joint dysfunction.

FAP declined by 7.3%, mostly due to the impact of the reduction in the prescription of antibiotics and increased competition in the Netherlands.

The Pet Diets franchise remained stable compared to the prior year, a satisfying performance as we transfer manufacturing to a new third party supplier (see Chairman's and Chief Executive Officer's Statement on page 12). Finally, third party manufacturing sales increased by 4.0%. The incremental value obtained by securing several new third party contracts was reduced due to a delay in production in Bladel. We expect to recover fully in the 2015 financial year.

Gross Profit

Our gross margins have improved from 53.2% to 55.6% reflecting the continued realisation of the Eurovet synergies and changes in our product mix based on our sales performance.

We benefited in this financial year from a full year of margin synergies realised by bringing in-house third party distribution contracts in France and Germany part way through the prior financial year. Additionally the impact of higher margin CAP growth and lower margin FAP decline resulted in a more favourable product mix.

Selling, General and Administrative Expenses (SG&A)

SG&A expenses grew by 6.4% to £57.3 million as we invested in people and targeted projects to support our strategic ambition.

Staff costs increased faster than inflation in a few departments as we invested strategically to support our growth. For instance we have continued to invest in the US sales infrastructure which has delivered clear benefits to the top line.

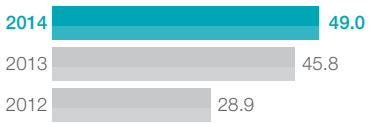
We have also incurred additional one-off costs in relation to several significant finance projects that will deliver future benefits, an example of which is outlined in the Taxation section of this report.

	2014 £m	2013 £m	Reported currency	Constant currency
CAP	**98.7**	94.8	4.1%	3.7%
Equine	**12.6**	11.0	14.5%	13.6%
FAP	**35.8**	38.1	(6.0%)	(7.3%)
Subtotal Pharma	**147.1**	143.9	2.2%	1.5%
Diets	**28.4**	27.9	1.8%	0.7%
Third Party Manufacturing	**18.1**	17.4	4.0%	4.0%
Total	**193.6**	189.2	2.3%	1.6%

"Our gross margins have improved from 53.2% to 55.6% reflecting the continued realisation of the Eurovet synergies and changes in our product mix based on our sales performance."

Financial Review continued

EU Profit
£49.0m
2013: £45.8m



US Profit
£6.0m
2013: £5.6m

Research and Development Expenses (R&D)
Our R&D spend totalled £8.2 million as we continued to progress the pipeline.

Our spend is broadly in line with last year. However, it is slightly lower than expected as we suspended the clinical trial of a feline endocrinology drug following concerns over the formulation. All other projects progressed as planned.

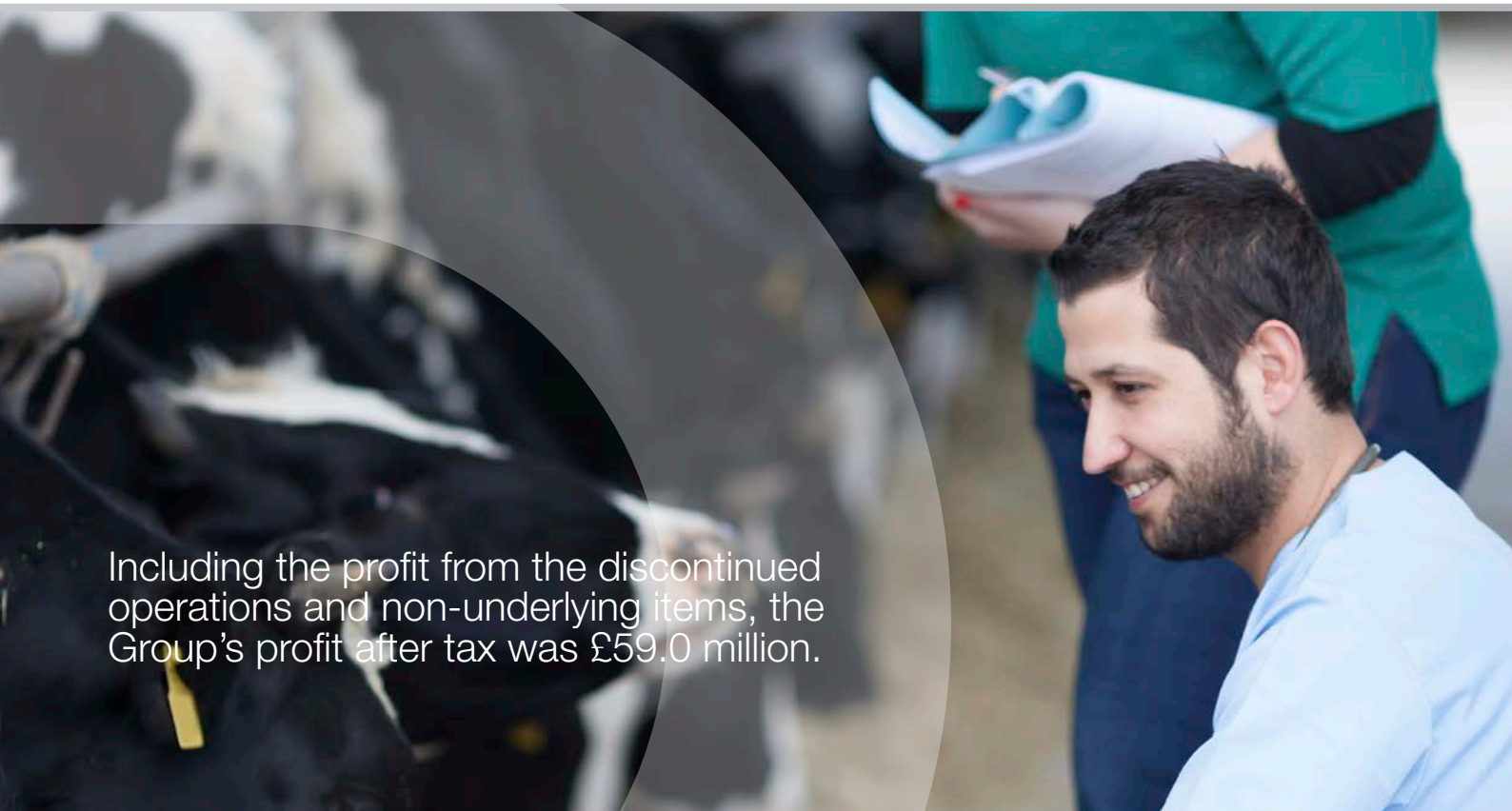
Segmental Profit
Operating leverage is improving in our EU and US Pharmaceuticals Segments with underlying profit as a percentage of sales at 28.4% and 28.3% respectively.

Following the divestment of the Services Segment, the Board reviewed our reporting Segments and concluded that retaining the EU Pharmaceuticals and US Pharmaceuticals Segments reflected the way we currently manage the Group and they meet the criteria defined under IFRS 8.

The operating leverage of our US Pharmaceuticals Segment is improving as past investment in infrastructure drives revenue growth. Investment will continue to support the forthcoming launch of *Osphos*.

Overview of Reported Financial Results
Including the profit from the discontinued operations and non-underlying items, Group's profit after tax of £59.0 million increased by 227.9% at CER (229.6% at reported).

	2014 £m	2013 £m	Reported currency	Constant currency
Revenue	**193.6**	189.2	2.3%	1.6%
Gross profit	**107.7**	100.7	7.0%	6.5%
Gross profit %	**55.6%**	53.2%		
Operating profit	**25.0**	18.3	36.6%	34.4%
EBIT %	**12.9%**	9.7%		
Profit after tax	**19.4**	10.9	78.0%	75.2%
Profit after tax including discontinued operations	**59.0**	17.9	229.6%	227.9%
Diluted EPS (p)	**67.33**	20.45	229.2%	227.5%



A reconciliation of underlying results to reported results as at 30 June 2014 is shown in the table below:

	2014 Underlying results £m	Non-underlying items: Discontinued operations £m	Amortisation of intangibles £m	Acquisition costs £m	Finance expenses £m	Rationalisation costs £m	2014 Total reported results £m
Revenue	193.6						193.6
Gross profit	107.7						107.7
Selling, General and Administrative Expenses	(57.3)		(16.5)	(0.2)		(0.5)	(74.5)
Research and Development expenses	(8.2)						(8.2)
Operating profit	**42.2**		**(16.5)**	**(0.2)**		**(0.5)**	**25.0**
Net finance costs	(2.3)				(1.3)		(3.6)
Profit before tax	**39.9**		**(16.5)**	**(0.2)**	**(1.3)**	**(0.5)**	**21.4**
Taxation	(8.0)		5.7		0.2	0.1	(2.0)
Profit after tax	**31.9**		**(10.8)**	**(0.2)**	**(1.1)**	**(0.4)**	**19.4**
Profit from discontinued operations		39.6					39.6
Profit for the period	**31.9**	**39.6**	**(10.8)**	**(0.2)**	**(1.1)**	**(0.4)**	**59.0**
Diluted Earnings per share (pence)	36.32						67.33

The sale of the Services Segment was completed on 16 August 2013. The profit from the discontinued operations was £39.6 million, of which £38.7 million was the pre-tax profit on the disposal. Additional details are shown in note 30 of the accounts.

Non-underlying items of £18.4 million, excluding the discontinued operations, are £2.7 million lower than the previous year due to *Eurovet* rationalisation costs in the prior year and favourable foreign exchange movements on the amortisation of acquired intangibles held in foreign currencies. Full details are shown in notes 4 and 5 on page 138.

Earnings per Share and Dividends

Underlying diluted EPS from continuing operations for the year was 36.32 pence, 23.9% growth versus last year as we benefited from interest and tax savings. The total dividend per share is 15.40 pence.

The reduction in interest payments following the repayment of our debt, together with expected tax savings and prior year tax adjustments (see note 8 on page 141), contributed to our Earnings per Share increase. Our tax strategy is covered in more detail later in this report.

The reported diluted EPS for the year was 67.33 pence (2013: 20.45 pence). The growth over the previous year reflected the profit on the sale of the Services Segment partly offset by the lost operating profit contribution from that business.

The Board is proposing a final dividend of 10.65 pence per share (2013: 9.66 pence). Added to the interim dividend of 4.75 pence, it brings the total dividend per share for the year to 15.40 pence, representing 10% growth over the previous year. Dividend cover based on underlying earnings was 2.4 times.

Net Debt

Our net debt position has improved considerably, from £80.8 million in the prior year to £5.0 million as at 30 June 2014.

The proceeds from the divestment of the Services Segment were used to pay down the term loan in full and partly pay down the revolving credit facility, which significantly improved our net debt position.

Covenants on the loan facilities were met during the year.

Underlying Diluted Earnings per Share

36.32p

2013: 29.07p

Dividend per Share

15.40p

2013: 14.00p

Find out more about EPS in note 10 of the Consolidated Financial Statements on page 142.

View further content on our website: www.dechra.com

Financial Review continued

£75.8m

Reduction in net debt

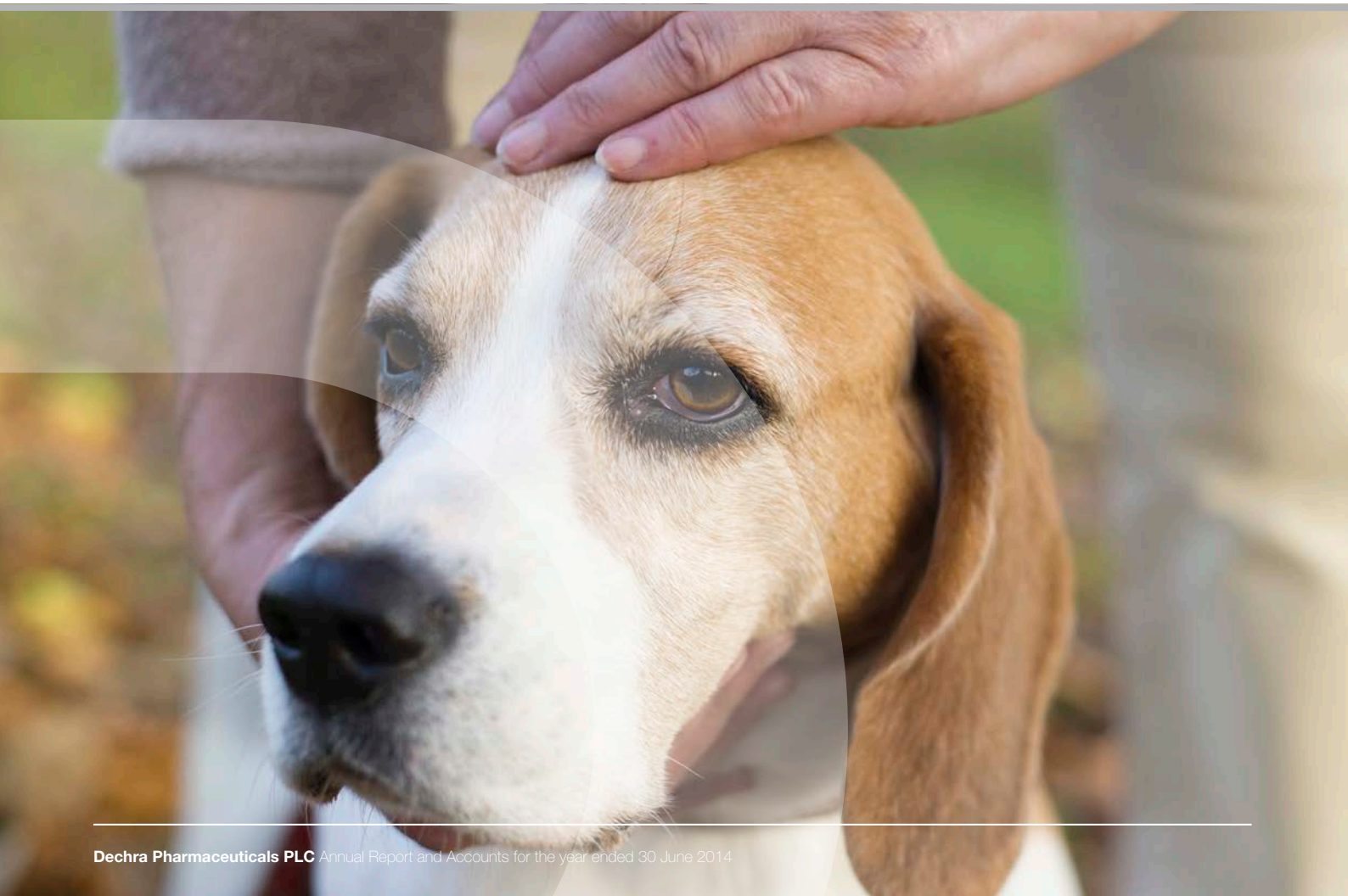
Balance Sheet

Net assets at 30 June 2013 totalled £204.8 million, a £30.2 million increase compared to the prior year.

	2014 £m	2013 £m
Assets		
Total non-current assets	**214.4**	235.7
Total current assets	**86.3**	89.6
Assets of disposal group held for sales	**–**	89.8
Total assets	**300.7**	415.1
Liabilities		
Total current liabilities	**(35.7)**	(49.5)
Total non-current liabilities	**(60.2)**	(137.0)
Liabilities of disposal group held for sales	**–**	(54.0)
Total liabilities	**(95.9)**	(240.5)
Total net assets	**204.8**	174.6

Total non-current assets include intangibles which amounted to £196.2 million (2013: £219.6m) as at 30 June 2014. The only significant addition relates to the product rights to *Phycox* and Levothyroxine from the PSPC Inc. acquisition which was more than offset by amortisation charges and currency translation differences.

Lower non-current liabilities reflect the repayment of borrowings following the Services Segment divestment.



Additionally it is worth noting that total working capital increased during the year from £28.4 million (on a continuing basis) to £32.2 million. £2.5 million of this rise is due to an increase in our trade working capital balance. The key drivers for this were the inclusion of the Services Segment as debtors in working capital combined with bringing business in-house from our distributors, offset by favourable exchange rates. The remainder is an increase in the non-trade balance principally due to exchange rates and divestment costs accruals. This has impacted our cash conversion.

Finance Strategy

During the year we have reviewed our tax and treasury strategies, resulting in improvements that will make our operations more efficient, robust and scalable. They will deliver financial benefits that will contribute to earnings growth.

Taxation

We have implemented a tax strategy that reflects the current and future Group business model, in line with the tax policy approved by the Audit Committee (see page 81).

We have performed a strategic review of our international tax affairs to ensure we take advantage of international government-backed incentive schemes, such as the patent box in the UK, innovation box in the Netherlands and global research and development regimes in the countries in which we operate. We are also aiming to simplify our operating model in order to improve control and ensure that we are structured in the most tax efficient manner.

Treasury

In September 2014, the Group refinanced its existing bank facility.

Our existing bank facility was committed until October 2016. Given the current economic context and our strategic ambitions, we felt it was appropriate to refinance.

The Group's revised borrowing facilities comprise a committed £90 million Revolving Credit Facility with an 'Accordion' facility of £30 million. The terms apply until September 2019.

The interest rate that is charged on the Revolving Credit Facility is dependent upon the Group's Leverage ratio (defined as the ratio of Total Net Debt to Total Adjusted EBITDA). The minimum interest rate payable by the Group is 1.30% over LIBOR and the maximum interest rate payable by the Group is 2.00% over LIBOR.

The facilities are provided by a syndicate of three banks: HSBC, RBS and Barclays. We will also consolidate our day-to-day banking operations with these banks, thereby improving the effectiveness of, and the controls over, our cash management.

This will give rise to a loss on extinguishment of debt of £386,000 in the year ending 30 June 2015.

Summary

We have consolidated our position in 2014 and are in a strong financial position to execute our strategy going forward:

- our gross margin improvements increase our operating leverage. Profits can be reinvested in the business where needed to drive returns;
- the progress we have made defining our tax and treasury strategies ensure that we are building a scalable finance structure; and
- we have maintained a strong balance sheet which gives us the flexibility to pursue strategic investment opportunities as and when they arise.

Anne-Francoise Nesmes
Chief Financial Officer
8 September 2014

"We are in a strong financial position to execute our strategy going forward."

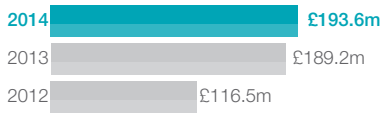
Key Performance Indicators

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

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

Sales Growth
1.6%

Definition
Year-on-year sales growth including new products but excluding revenue from acquired businesses in the year of acquisition.



Relevance to Strategy
A key driver of our strategy is to deliver sustainable sales growth through delivering our pipeline, maximising our existing portfolio and expanding geographically.

Performance
Sales increased by 1.6% at CER (2.3% at reported rates). Our growth was impacted by the decline in FAP, particularly in the Netherlands, and the slowdown in *Vetoryl* sales due to the phasing of sales in Italy and the shortage of the accompanying diagnostics drug.

Underlying diluted EPS Growth
23.9%

Definition
Underlying profit after tax divided by the diluted average number of shares, calculated on the same basis as note 10 of the Accounts.

Relevance to Strategy
Underlying EPS is a key indicator of our performance and the return we generate for our shareholders. It is one of the vesting conditions of the LTIP.

Performance
The increase of 23.9% at CER (24.9% at reported rates) reflects the one time benefits from savings on interest after we repaid part of our debt using the proceeds from the Services Segment divestment. Prior year tax adjustments also contribute to the strong performance.

Return on Capital Employed
16.4%

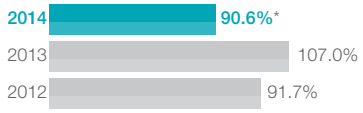
Definition
Underlying operating profit expressed as a percentage of average operating assets (excluding cash and tax assets).

Relevance to Strategy
As we look to grow the business, it is important that we use our capital efficiently to generate returns superior to our cost of capital in the medium to long term. It underpins the vesting conditions of the LTIPs.

Performance
This indicator includes profit from the Services Segment for 12 months for the prior financial years but only for 11 weeks in this financial year. As a result, the ROCE declined slightly due to the profit dilution following the disposal. This was in line with our expectations.

Cash Conversion
90.6%

Definition
Cash generated from operations before tax and interest payments as a % of operating profit before amortisation of acquired intangibles.



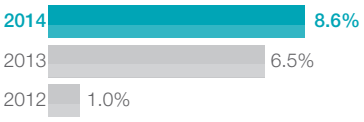
* On continuing operations basis

Relevance to Strategy
Our stated aim is to be a cash generative business.

Performance
Our cash conversion for the continuing operations ended at 90.6%. This falls slightly below previous years due to an increase in our working capital, which is further explained on page 43.

New Product Sales
8.6%

Definition
Revenue from new products as a % of total Group revenue. A new product is defined as any molecule launched in the last five financial years.

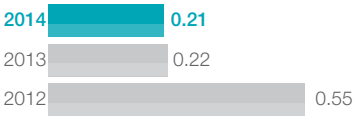


Relevance to Strategy
This measure shows the delivery of sales in each year from new products launched in the prior five years, on a rolling basis. It shows the performance of our R&D and sales and marketing organisations when launching new products.

Performance
Sales from new products continue to increase and account for 8.6% of our total sales in 2014. This is mostly due to the successful launches of *Forthyron* and *Cardisure* in Europe.

Lost Time Accident Frequency Rate (LTAFR)
0.21

Definition
All accidents resulting in the absence or inability of employees to conduct the full range of their normal working activities for a period of more than three working days after the day when the incident occurred, normalised per 100,000 hours worked.

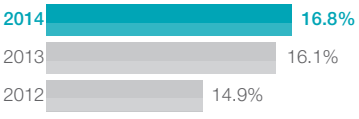


Relevance to Strategy
The safety of our employees is core to everything we do. We are committed to a strong culture of safety in all our workplaces.

Performance
Including the Services Segment, the LTAFR remained relatively the same as in the previous year. Considering continuing operations only, the LTAFR fell to 0.08% as reported in page 109, which reflects our focus on employee safety.

Employee Turnover
16.8%

Definition
Number of leavers during the period as a percentage of the average total number of employees in the period.



Relevance to Strategy
Attracting and retaining the best employees is critical to the successful execution of our strategy.

Performance
The increase in employee turnover to 16.8% reflects a major change in the business as we completed the closure of the factory in Uldum, Denmark, as previously reported. The impact of the Services divestment has been excluded from this calculation.

How the Business Manages Risk

Risk Agenda

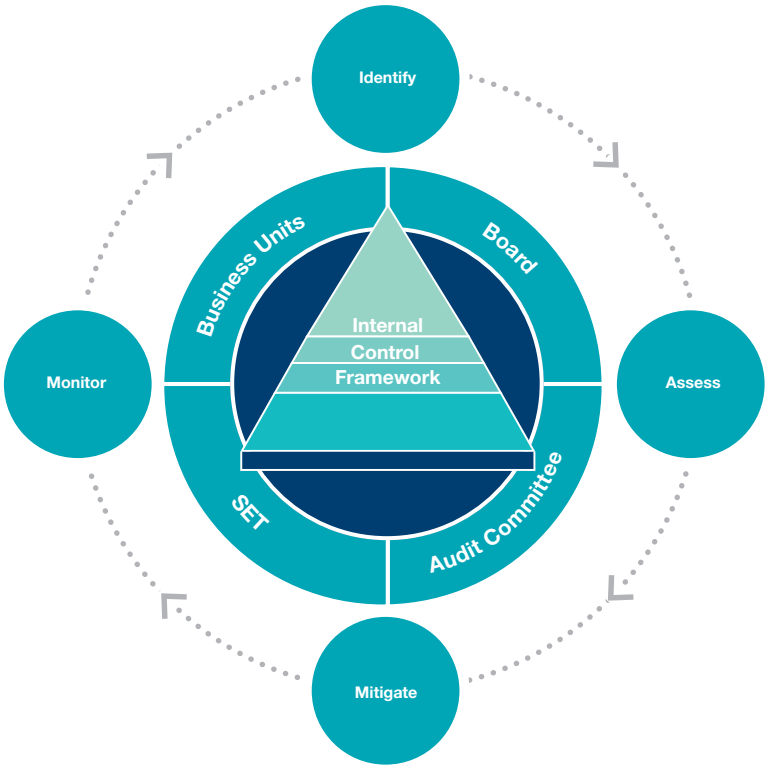
Effective risk management is key to the achievement of our business strategy. In October 2013 the Board commenced a review of the Group's risk management process in order to assess whether there was scope for improvement. Deloitte LLP were retained to assist with the review, which formed part of their wider remit to assist in the review of the Group's internal financial controls. More detail in relation to this review can be found on pages 81 to 82 of the Audit Committee Report.

The review confirmed that, overall, the risk management process was appropriate for the size of the Group and provided validation of the existing risks. However, the following areas of improvement were suggested:

- ownership of the risks should be created at SET level;
- amendments to both the process and documentation, including the introduction of half-yearly risk interviews with the SET; and
- the proposed appointment of the Internal Audit Function should encompass a risk assurance remit.

It is considered by the Board that these changes to the current risk system and framework will ensure that:

- the SET provides a platform for reviewing and assessing risk from both a bottom up and top down level, and acts as a link between the Board and the business units ensuring that risk management is embedded within the business;
- any risks identified in relation to the achievement of the Group strategy are correctly captured and monitored;
- the risk appetite is correctly assessed and understood; and
- there is a strong governance framework clearly linking our risk management and internal controls framework. For information on the Internal Control Framework see pages 76 to 77.



Risk Framework

The SET is now a pivotal platform responsible for the overall risk framework. It drives the identification of risks, establishes the owners of each of those risks and ensures that they are correctly mitigated and monitored. The SET reports the risks to the Board. Each SET member owns one or more of the risks and is scheduled to attend Board meetings during the course of the financial year to conduct a detailed review of their risks. For the purpose of the year end disclosure each SET member has met with the Chief Financial Officer and Company Secretary to discuss their risks and controls.

The discussions have focused on a number of areas including:

- understanding the possible root causes of the risk;
- reviewing what controls are currently in place; and
- assessing whether additional controls should be added in order to ensure that the risk is appropriately mitigated.

The SET will also ensure that ongoing monitoring is embedded in their business units or function.

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

- how they link to the Group strategy;
- how they could potentially impact the business; and
- what controls have been put in place to mitigate them.

Key of trend compared to prior year: No Change | Increased Risk | Reduced Risk

Link to Strategy	Risk	Potential Impact	Mitigation	Trend
	Competitor Risk: Competitor products launched against one of our leading brands (e.g. generics or superior product profile). We depend on data exclusivity periods or patents to have exclusive marketing rights for some of our products. Although we maintain a broad portfolio of products, we recognise that our unique products, like *Vetoryl* and *Felimazole*, have built a market which may be attractive to competitors. We need to ensure that, should competitors enter the market, we create additional unique selling points which allow us to maintain our market share.	Revenues and margins may be materially adversely affected upon the expiry or early loss of patents, or by generic entrants/competitors into the market for one of our leading brands. Costs may increase due to defensive marketing activity.	We focus on lifecycle management strategies of our key products to ensure that our products fulfil evolving customer requirements. Product patents are monitored and consideration is given to the formulation of a defensive strategy towards the end of the patent life or the data exclusivity period. We monitor market activity so that prior to competitor products being launched, a response strategy can be established and executed by our marketing team. This defence plan is intended to minimise competitor impact.	
	Product Development Risk: Failure to deliver major products either due to pipeline delays or newly launched products not meeting revenue expectations. Delivery of our pipeline is key to the achievement of our strategy and our future success. We commit substantial resources to development. However, we may be unable to develop or get new products approved. It may also be difficult to predict whether newly launched products will meet commercial expectations.	A succession of clinical trial failures could adversely affect our ability to deliver shareholder expectations. Our reputation and relationship, not only with our shareholders, but also with veterinarians, could be damaged. Our positioning in the market may be affected and could reduce our leading position in key therapeutic areas. Reduced revenue and profitability may mean we are unable to recoup the costs incurred in developing and launching the product, resulting in impairment of intangible assets.	Potential new development candidates are assessed from a commercial, financial and scientific perspective by a multi-functional team to allow senior management to make go/no go decisions. The pipeline is discussed regularly by senior management, including the Chief Executive Officer and Chief Financial Officer. Regular updates are also provided to the Board. Each development project is managed by a dedicated clinical project manager who chairs a monthly project team meeting. Before major costly efficacy studies are initiated, smaller proof of concept studies are conducted to assess the effects of the drug on the target species and for the target indication. In respect of all new product launches a detailed marketing plan is established and progress against that plan is regularly monitored. The Group ensures that it has a detailed market knowledge and retains close contact with customers through its management and sales teams which are consistently trained to a high standard.	

How the Business Manages Risk continued

Link to Strategy	Risk	Potential Impact	Mitigation	Trend
	**Regulatory Risk:** Failure to meet regulatory requirements. We perform our business in a highly regulated environment, not only from a manufacturing perspective but also in respect of product approvals. Failure to adhere to, or maintain, regulatory standards could ultimately affect our manufacturing capability and our ability to deliver products to market on time.	Delays in regulatory reviews and approvals could impact the timing of a product launch and have a material effect on sales and margins. Any changes made to the manufacturing, distribution, marketing and safety surveillance processes of our products may require additional regulatory approvals, resulting in additional costs and/or disruption. Failure to achieve regulatory requirements may result in operational closures which in turn increases expenditure and delays to production.	The Group strives to exceed regulatory requirements and ensures that its employees have detailed experience and knowledge of the regulations. Manufacturing and PDRA have established quality systems and standard operating procedures in place. Regular contact is maintained with all relevant regulatory bodies in order to build and strengthen relationships and ensure good communication lines. The regulatory and legal teams remain updated in respect of changes with a view to ensuring that the business is equipped to deal with and adhere to such changes. Where changes are identified which could affect our ability to market and sell any of our products, a response team is created in order to mitigate the risk. External consultants are utilised to audit our manufacturing quality systems.	
	**Regulatory Risk:** Continuing pressure on reducing antibiotic use. The issue of the potential transfer of increased antibacterial resistance from food producing animals to humans is subject to regulatory discussions. In some countries this has led to government recommendations on reducing the use of antibiotics in food producing animals.	Reduction in sales of our antimicrobial product range. Our reputation could be adversely impacted if we do not respond appropriately to government pressure.	Regular contact is made with all relevant veterinary authorities to ensure that we have a comprehensive understanding of regulatory changes. We strive to develop new products that minimise antimicrobial resistance concerns.	
	**Reliance On Third Parties Risk:** Failure of a major supplier resulting in loss of raw materials or product supply or delay in clinical trials. We rely on third parties for the supply of all our raw materials. Failure to supply these raw materials will affect our manufacturing and development capabilities. It is important that we manage our stock levels of key raw materials and are able quickly to identify and obtain materials from a second source.	This may lead to significant delays and/or difficulties in obtaining goods and services on commercially acceptable terms potentially increasing the cost of production. Disruption in production may result in product shortages and significant delays, which may lead to lost sales.	The performance of our suppliers is monitored. As a result, if we identify a potential issue, we source promptly from either an identified alternative supplier or a new supplier. Where a manufacturing transfer is required, stock is built up in order to avoid/mitigate an out of stock situation. In respect of DPM, a 'second sourcing' project for key materials has established our approach for all components. In addition the top ten Group products are continually risk assessed in order to identify the key suppliers of materials or finished products. All contracts with suppliers are reviewed from both a commercial and legal perspective to ensure that assignment of the contract is allowed should there be a change of control of either of the contracting parties. Risk mitigation strategies are in place such as maintenance of buffer stocks and dual sourcing.	

Link to Strategy	Risk	Potential Impact	Mitigation	Trend
	**Reliance On Third Parties Risk:** Loss of key third party customers from DPM. Contract manufacturing represents approximately 9% of Group revenues and 46% of our manufacturing volume. Contract manufacturing is a significant part of our revenue.	Loss of a key customer can impact manufacturing revenues and lead to an increase in the cost of goods of the remaining portfolio.	Robust supply agreements are in place with each of our key customers and are regularly reviewed. Close, regular contact is maintained through the sales director with key customers Monthly service level monitoring and reporting is in place. We have an experienced sales team which focuses on bringing in new customers.	
	**People Risk:** Failure to have robust succession plans in place leading to gaps in knowledge and experience in key roles in the business. We pride ourselves on the low turnover of staff in senior and other key positions. However we must ensure that we have plans in place should we lose key personnel on whose capabilities we depend.	Loss of knowledge, skills and experience could erode our competitive advantage. Inability to attract and retain key personnel may weaken succession planning and could have an adverse impact on results.	Succession planning is driven by the Nomination Committee and the Group HR Director. Where deemed necessary Key Man Insurance is in place. A new HR plan is being implemented to strengthen our talent management and succession planning. Remuneration packages are reviewed on an annual basis in order to ensure that the Group can continue to retain, incentivise and motivate its employees.	
	**People Risk:** Risk of failure to adequately resource the business to meet strategic ambitions (e.g. knowledge and investment). We have a clear focus on our four strategic growth drivers. As Dechra expands we need to ensure that we have the necessary skills to execute our strategy and that we allocate sufficient resources where required.	Implementation of our strategy may be delayed and we may not meet shareholders' expectations We have failed to identify potential capability gaps. We may be unable successfully to integrate acquisitions. Resources are too stretched, leading to potential personnel issues.	The Group HR Director is in the process of commencing a capability study in order to ensure that we have the correct level of skill, knowledge and experience internally to deliver our strategic goals, and to identify where to attract and recruit skills if they are not already present in the Group.	

Q&A with Ian Page

Ian Page
Chief Executive Officer

"Our major objective is to cement ourselves as a leading global animal health company."

Q **Revenue growth does not appear as strong as in previous years. Are you concerned?**

A There have been a number of headwinds in the year on revenue growth. Firstly, *Vetoryl*, our lead product, was affected by the shortage of a diagnostic tool used to recognise Cushing's disease. This resulted in it being very difficult for veterinarians to actually prescribe the drug for new cases. We have had ongoing supply issues with the US, with *Animax* and the ophthalmics, and we are also constantly seeing a pressure on antibiotic usage as governments look to put pressure on veterinarians to prescribe less antibiotics because of concerns over antimicrobial resistance.

If you look at our second half growth, which was 4%, and was a lot stronger than the first half decline, then we feel that we have no concerns at all over revenue growth and going forward we should see an improvement.

Q **Why did you acquire PSPC?**

A We have been very successful in the US, with a business that is growing revenues very quickly, and is already very profitable. However, if you look at the business it is underweight, given the scale of the market and in comparison with the EU.

PSPC was a business we had been talking to for a number of years. We saw it as an excellent acquisition, particularly as it has one unique product, *Phycox*, which is a patented nutraceutical that fits ideally with our portfolio. It also has a new endocrinology product in development which is very similar to our *Forthyron* product, which we market very successfully within the EU. So we are really keen on bringing that product into our portfolio later in this calendar year to really enhance our position.

Looking at the acquisition as a whole, it creates opportunities to grow their existing products, and it also creates the critical mass required to continue to invest, to get a sales team which is sufficient to penetrate this very important market.

Find out more about *Vetoryl* on page 59.

Watch the Online Video
www.dechra.annualreport2014.com

Web link for your convenience

Q **What do you see as the key growth drivers in the next few years?**

A Our strategy is very clear, and has been covered well in recent communications. There are four major pillars to our strategy: portfolio focus, product development, geographical expansion and acquisition.

Of these four drivers I consider product development to be the most important. We have recently submitted a dossier for a new equine product branded *Osphos*, and have had that approved in both the UK and the USA. We also expect the product to be approved across the rest of Europe early in the next calendar year.

We have also submitted an endocrine dossier for approval in Europe and the USA and we expect that to be approved next year.

We have added additional resources into the product development team, and we have got new projects that we are currently looking at.

Q **What are your medium and long term expectations for the business?**

A Our major objective is to cement ourselves as a leading global animal health company.

Looking geographically, we have recently opened in Italy, we are about to launch in Canada, we are reviewing another territory to hopefully launch next year. We are also investing further into our export capabilities, particularly in project registration as we look to gain critical mass in a number of other key target territories.

We are also looking at acquisitions. Recent transactions by big pharma have been at such high multiples that it is very difficult to find value at the moment; however, we are reviewing several candidates and we will hopefully make progress.

I have already mentioned the pipeline, which is delivering new products and will lead to success. We are also seeing growth, as I mentioned at the outset of this interview, of 4% revenue growth in the second half of our last financial year.

So, if we take all these factors into consideration, we have every confidence in our future growth prospects.

Q&A with Anne-Francoise Nesmes

Anne-Francoise Nesmes
Chief Financial Officer

"The improvement in gross margins is certainly one of the key drivers behind our very strong profit performance.'

Find out more about Our Marketplace on pages 18 to 19.

Watch the Online Video
www.dechra.annualreport2014.com

Web link for your convenience

Q You have been in the business for over a year. What are your thoughts about the animal health market?

A The animal health market has been growing steadily over the last few years, despite a tough global economic environment. If you look at 2013, the animal health market growth is estimated to be around 4%. There are several factors that explain this: in the Companion Animal Products the growth is driven by an increase in pet ownership, but also pets living longer; and in the Food producing Animal Market, the growth is driven by the increase in the global population and the increased demand for high quality meat protein. And as you may know, Dechra competes in both of those sectors, so we are very well positioned to seize opportunities.

Considering the animal health market, it is quite interesting to draw the contrast with the human health market. Whilst there are many common characteristics, such as a regulated environment, there are also some key differences. One of the key differences is in terms of R&D. What we do is develop existing molecules for veterinary use and, obviously, this is a lot less risky than the human market. Similarly, when we look at our product lifecycle, they have a much longer lifespan, and generic penetration is a lot less than in human pharma.

So I think, all-in-all, this makes the animal health market very attractive for investors.

Q The year has seen a strong increase in gross margins. Do you expect this to continue?

A The improvement in gross margins is certainly one of the key drivers behind our very strong profit performance and, if you look at the gross margin, you will see it has improved by about 2.5 percentage points.

There are two main reasons for this. The first one is the synergies from the *Eurovet* acquisition. One thing we have done is brought 'in-house' sales which were previously made through third party distributors. And as we are now selling through our own sales force, we retain the margins that distributors used to make. The second reason is the product mix, with the split between our companion animal sales and our food animal sales.

Looking forward the margins will always fluctuate and depend first on the product mix, as I said, but also on the success of our pipeline. We see that Companion Animal Product sales are higher margin, they are higher value, whereas the Food producing Animal Product sales are higher volume, but lower margin. Therefore, we will always balance the two margins and the product mix. Looking at our pipeline, we are about to launch several products over the next few years which are of high value to us and therefore again that will drive the margin.

So, in summary, when I look forward, and at the margins, as a minimum I think we should maintain the margins where they are and try to improve them over the next few years.

Q **In your statement you make reference to a number of finance projects. Can you provide more clarity please?**

A It has been a very busy year for the finance team in the Group, and I would really like to recognise the work that all the team members have done during the year. After the divestment of the Services Segment, and after the redefinition of our strategy, the finance strategy became very clear. It was very obvious that we had to preserve the strength of our balance sheet in order to execute the strategy and finance our expansion.

We started with tax, and did a full review of our tax strategy and our tax position. We are taking full advantage of government backed incentive schemes for innovation driven organisations like ours.

We then turned our attention to the treasury, and once we had repaid part of our debt, we looked at the funding requirements we will have in the future. We also did that because we wanted to take the opportunity of very favourable market conditions. We will now operate with a syndicate of three banks, which ensures that our cash management operations will be scalable for the future, and will be more robust.

In parallel to all this, we continued with the roll out of Oracle, our IT system for finance, to the rest of the business, and we continued to improve our control framework to make sure that it evolves as the organisation grows.

It is true that a finance strategy is important for any business, but I am particularly pleased that for Dechra it has contributed to the bottom line this year, and it will continue to help grow the EPS in the next few years.

Q **What are your priorities for 2015?**

A We said last year that we would refine our strategy, and we did. We are now focused on four strategic growth drivers, which are: delivering our pipeline, maximising our returns from the existing portfolio, expanding geographically and acquiring if there is a suitable opportunity.

So in 2015 the priority is to execute and deliver on our strategy. From a finance perspective, that means three areas of focus in terms of our work and our activities. The first one is allocating resources to drive returns. Secondly, maintaining or improving gross margins. And finally, building a business model that is scalable and that can accommodate for the growth in the future.

Taking the first point about allocating resources, it is really about ensuring that we put our resources, our money, behind the projects that will drive the growth. That means that we need to be able to support the product launches like *Osphos*; we need to be able to fund our geographic expansion; we need to be able to continue to invest in R&D, while delivering returns to our shareholders. So that is very important.

With our second focus on improving or maintaining our gross margins, we will look at both our commercial offering but also our production costs. We will also look at our supply chain capabilities that we have identified as a key enabler in our strategy.

And finally, the last area has always been something of a key concern of mine, that is, how to build an organisation that is scalable as we continue to grow. For this, it is important that we implement the projects we have started, like the Oracle system and the treasury strategy I discussed earlier, because that ensures that everything we do is scalable and can grow with Dechra as we become a larger organisation.

So if we do all of these, the Board, the Senior Executive Team, Ian and myself are very confident that it will continue to strengthen Dechra's position in the global animal health market.

Q&A with Tony Griffin

Tony Griffin
Managing Director — DVP EU

"During 2013 we completed an extensive search for an alternative source for our dry diets range and since quarter one 2014 the process has been started to transfer the production of these key products to this new source."

Find out more about our Italian Subsidiary on page 60.

Q What have the key highlights for the year been for DVP EU?

A In the previous financial year, one of the main priorities for DVP EU was ensuring the smooth integration of *Eurovet* into the Dechra organisation and the realisation of the potential synergies which were identified prior to the acquisition in May 2012.

In the financial year just ended, while continuing to deliver the expected synergies, one of the most significant achievements was the creation of a new strategic plan for the enlarged European business, ensuring focus for the coming years. With the enlarged product portfolio, additional geographic spread and combination of CAP and FAP businesses, it was essential to set priorities within the business.

The plan was completed in 2013 and was created over a 12 months period involving input from the Country Managers and senior marketing executives within DVP EU. The most important outputs of this plan were the setting of long term objectives for the team, the redefining of our focus therapy areas and the identification of short to medium term action plans which should enhance the growth of the business.

One of the key drivers in Dechra's strategy is continued geographic expansion. In March of 2014 we successfully set up our own sales organisation in Italy. Based in Turin our small, but professional team has been busy relaunching our extensive portfolio of both CAP and FAP products, which were previously marketed by distribution partners.

Our most important key therapy area in the CAP business is endocrinology. In 2013 we were faced with the introduction of a generic version of our key product *Felimazole*. As part of our defence strategy, our central marketing team created a new positioning for this product with award winning supporting materials, which all markets have used in order to retain our market leadership position within this segment.

We also launched an additional tablet strength of 1.25mg, to differentiate further our offering from that of the generic. Despite the aggressive pricing strategy from this generic entrant, we were able to maintain market share in most markets and have grown sales revenues by 2.0% during the fiscal year.

In recent years our Diets business has suffered due to supply issues. During 2013 we completed an extensive search for an alternative source for our dry diets range and since quarter one 2014 the process has been started to transfer the production of these key products to this new source. Alongside ensuring continuity of supply, cooperation with this new partner has already delivered product quality enhancements which will help to drive future growth of this business.

In summary, after a relatively challenging start to the year, we have seen sales performance improve in the second half and are pleased to note that growth in constant currency in the 13 markets where we now have our own sales teams was 1% with only the Netherlands continuing to decline. Our fastest growing product was *Cardisure* at 32%, which is rapidly approaching the status of a top five product for DVP EU, and our fastest growing key focus therapy area was our equine range which grew by 11% driven by a second half recovery of *Equipalazone* and a strong growth in sales of *HY50*.

Q What makes DVP EU unique?

A I believe there are a number of factors which make us stand out from the competition; however, I am convinced that most important are the people that work in Dechra and the overriding culture of entrepreneurial spirit and agility. In a recent survey carried out among European veterinarians we received feedback, consistent across all markets, that they appreciated Dechra as we were seen as a company which is close to our customers, that listens carefully and acts quickly.

The veterinarians in Europe find senior managers within Dechra approachable and available, something they do not often experience among the larger companies. We are a Company which wants employees to take responsibility and to play an important part in supporting the growth of the business. This is reflected in the quality of the people we have been able to attract to the business and the professional output which is achieved using very often the more limited resources we can make available as a mid-size company compared to our much larger competitors. Combine this quality team of people with the Dechra culture and excellent products and then you can understand why we are unique.

Q What is your view of the continuing impact of the antimicrobial prescribing pressure on the DVP EU markets?

A I fully support the focus on ensuring prudent use of antibiotics in all sectors including in the veterinary business. Increasing antibiotic resistance is a major concern for all of us and we have to work together, politicians, regulators, manufacturers, prescribers and sellers to ensure that we have these essential pharmaceuticals available for many years to come in order effectively to treat infectious diseases. I believe that the focus worldwide on the reduction of antibiotic use in food producing animals is the strongest in the EU and that this will continue and will have an effect on sales of these products in the years to come.

The Netherlands and Denmark have been leading the way in Europe in recent years. However, recent legislation in Germany and Belgium is pushing down usage in these markets, while the French authorities have set reduction targets for the next three years. In Southern Europe we have not yet seen any significant measures being taken; however, it would be prudent to assume that here too we will see authorities taking steps to reduce overall use. While we have to assume that the total market for therapeutic antibiotics in Europe will decline, we strongly believe that we have both products and a strategy which can minimize the effects of these developments on our business.

Currently Dechra's sales of antibiotics are mainly in Northern Europe, and apart from the Netherlands we have been able to realise growth in some key markets in recent years. However, overall FAP sales have declined in 2014. We are only now starting to introduce our key products in the major swine and poultry markets of France, Italy and Spain. It is a challenging market; however, thanks to our *Solustab* technology which supports prudent use and the potential to grow in certain markets despite the pressure to reduce usage, we are confident that we can maintain a healthy business in this important product segment.

Q How is Italy performing?

A It is early days yet; however, Riccardo Data, our Italian Country Manager, and his team have delivered the sales and operating profit targets we had set for the first months of operation since 1 March 2014. The setting up of our Italian operation was an excellent team effort, with people from across Europe and from different departments working to get the legal entity established with all regulatory matters taken care of and the logistics and IT support in place. All of this was completed on time to market our products as they came back from several different distribution partners as the various contracts expired. In the coming months the team in Italy will continue to re-launch our wide portfolio of products and by the end of 2014 we will have 21 products on the Italian market being sold by our own sales organisation.

Q What is the outlook for the next 12 months for the animal health market in DVP EU?

A The animal health business has always traditionally been seen as recession proof. This has generally held true and especially when the recession period was shorter than that which we have experienced in recent years. Having said this, Dechra has continued to grow in every year since 2008, despite the fact that the European animal health markets have seen moderately low growth in the past two years. A conservative return to economic growth in the coming period will help footfall in veterinary practices and should have a positive effect on our business moving forward.

Q&A with Mike Eldred

Mike Eldred
President — DVP US

"We had the opportunity last year to further expand our US organisation by hiring key sales, marketing and veterinary technical services personnel who will all be critical to our future success."

Find out more about Phycox on page 61.

Q What have the key highlights for the year been for DVP US?

A This past year was an exciting period for DVP US. We experienced the full spectrum of activities you would expect from a growing animal health business, from solid growth on our core product line, acquisition of a new company, a new drug approval from the FDA to the expansion of our commercial team.

We continued to show double digit sales growth for our core products, *Vetoryl*, *Felimazole* and dermatology. Versus previous year, *Vetoryl* sales exceeded expectations and grew 24%. We continued to focus on educating veterinarians on Cushing's syndrome and the importance of FDA approved drugs over compounded products. We held over 165 Continuous Professional Development (CPD) evening meetings and had the opportunity to educate over 5,000 veterinarians on the importance of utilising *Vetoryl* to treat this very complex disease.

Felimazole sales also remained strong last year. Competing against low-cost human generics, the US team still achieved 19% growth over previous year. Additionally, our sales of the *DermaPet* range (now marketed as Dechra Dermatology) continued to demonstrate growth of 10.5%. We launched a new product, MiconaHex+Triz Shampoo, Spray and Wipes, which further strengthened our product line by offering veterinarians a new Miconazole combination product.

In addition to strong growth from our current portfolio, we successfully completed the acquisition of the trade and assets of PSPC Inc. – *Phycox* Animal Health. This acquisition brought Dechra our first US manufacturing facility, located in Melbourne, Florida.

This facility produces the *Phycox* line of products and will also manufacture our new endocrine product that is expected to launch the next fiscal year. *Phycox* is a patented product containing an extract of blue-green algae that historically achieved sales of $4.5 million with no outside sales force. I am confident that our talented and expanding sales force we will be able to grow and establish *Phycox* as a leading product to support companion animal joint health.

We also received great news from the FDA last year that our site transfer was completed for two of our major veterinary-approved ophthalmics, *Vetropolycin* and *Vetropolycin HC*. We relaunched successfully in May 2014 these two products, after two years supply interruption, and look forward to further expanding our line with the approval of *Vetrochloracin* and *Vetro-gen*® in the future. A major achievement was accomplished by our Product Development team with the FDA approval of *Osphos*. *Osphos* is indicated for the treatment of the clinical signs associated with navicular syndrome in horses. This key approval is the flagship drug for our Equine team and will be a major focus for Dechra's next financial year.

Finally, we had the opportunity last year further to expand our US organisation by hiring key sales, marketing and veterinary technical services personnel who will all be critical to our future success. Additionally, we established DVP Canada as a legal entity and hired our Country Manager to build the Canadian team.

All in all, this has been an excellent year for DVP US. We have built an organisation based on great people selling great products and a culture that will allow us to continue to drive growth in the US and Canada.

Q **What makes DVP US unique?**

A I have worked in the veterinary industry for over 20 years. Without a doubt, the unique factor at DVP US is our culture. I continue to stress to our employees there are three driving forces to our success: great products, great people, and our ability to solve problems. All of these factors are a result of the culture we have established within Dechra. We are a non-hierarchical organisation that does not believe in politics, bureaucracy, micro-management or egos. It is the goal of the Company to work as a team to ensure we do our best to provide the ultimate level of customer service to our colleagues and external customers. We also believe that work life balance is essential to maintain a resilient and motivated workforce.

Q **Do compounding pharmacies continue to impact DVP US?**

A Yes, compounding pharmacies remain a challenge for many US veterinary pharmaceutical companies. With the growing impact of social media, internet pharmacies and other media forms, everyone is trying to capture a slice of the growing pet industry in the US. The key to overcoming compounding pharmacies is to continue to educate the veterinarians on the importance of FDA approved products from a safety, efficacy and product liability standpoint. There have been various negative events that have occurred as a result of compounded drugs in the US. Unfortunately, many have led to human and animal deaths. It is our job to ensure we help the veterinarians understand that compounded products are not the same as a generic drug and are not analysed by the FDA for safety, efficacy and quality.

Our continued focus on CPD evening meetings provides a venue where we can address the risks associated with compounded products and hopefully convince veterinarians to support and utilise FDA approved products.

Q **How is the Phycox integration progressing?**

A The integration of PSPC, Inc. has been completed and all aspects of the business are progressing as planned. We acquired the facility in Melbourne and have hired key PSPC personnel to help support the transition and drive the business forward.

Q **What is the outlook for the next 12 months for the animal health market in DVP US?**

A I am extremely optimistic about the next 12 months for DVP US and DVP Canada. With the launch of *Osphos*, the addition of the ophthalmics and *Phycox*, the expected growth from our base business, hiring more employees in the US and establishing our Canadian subsidiary, we will be committed to expanding Dechra's North American footprint and increasing our returns to enhance shareholder value.

OSPHOS®

A stride forward

From the **innovators in equine health**

Case Study: *Osphos*

Osphos (clodronate injection), a novel equine product, has received approval from the US FDA and the UK Veterinary Medicines Directorate (VMD) and is expected to be launched at the beginning of our new financial year.

The product is an intramuscular injection used to control the clinical signs of navicular syndrome, estimated to cause a third of all forelimb lameness in horses. There are several benefits to the product relating to its efficacy, safety and relative ease of administration by the veterinarian.

The opportunity was first identified by our Business Development team who developed a relationship with a German veterinarian, the inventor. He had an excellent proof of concept study, enabling us to feel confident that the drug would be both safe and efficacious.

After evaluating the market potential, our Marketing teams decided that this product represented a strong addition to our equine portfolio. On this basis we reached a commercial agreement and designed the development project.

Following the dose characterisation study, we conducted a multi-site clinical field study to evaluate the effectiveness of *Osphos*. After completing all our development activities and preparing a registration dossier, we filed successfully in the UK and US.

However, in Europe, where horses are considered a food-producing animal, we required additional information about the product's maximum residue limit (MRL) to establish the safety of the product for a human consuming horse meat. The approval application for the EU has now been submitted.

Manufacturing presented the single greatest challenge for the approval of *Osphos*. As neither of our manufacturing sites has FDA approval for manufacturing aseptic fill products, manufacturing has been contracted to an outside firm.

Osphos is one of many projects that show our strategic focus on pipeline delivery, as well as demonstrating our ability to work effectively with the authorities to deliver products with clinical benefits that complement our existing portfolio.

Our launch plans in the US and UK are ready and *Osphos* will be available in the first half of our 2015 financial year. We are eagerly anticipating the launch of this new major product.

Case Study: *Vetoryl*

Vetoryl (trilostane capsules) is the only licenced product for the treatment of canine hyperadrenocorticism or Cushing's syndrome. It is sold internationally and recognised globally for its efficacy. With the possibility that *Vetoryl* may experience increased competition in the future, and due to a slow down in growth in a number of countries, it became important to strengthen our current global market position.

In order to do this, a new international marketing campaign has been developed to reposition *Vetoryl*, aiming to create a higher emotional engagement with veterinarians, and strengthen Dechra's position as the leading experts in endocrinology.

The campaign's theme reflects the key end benefit of *Vetoryl*: restoring life at every level. The positive effects of the treatment are often felt by the owner as well as the dog, helping to restore life and vitality whether they are on four legs or two.

The integrated campaign delivers a range of support for the vet, pet owner and Dechra's sales teams. It includes advertising, flowcharts for diagnosis and treatment, sales aids, and pet owner booklets. Case studies are also included that have been developed with several European key opinion leaders.

The campaign will be launched across all European markets over the forthcoming months.

We have a clear campaign strategy. Our objective is to be seen as the experts in endocrinology. *Vetoryl* gives veterinarians and pet owners complete control. It can turn back time as a dog recovers its vitality and its life is restored.

The values attached to the brand are very clear: efficacy, control and innovation. This is supported by scientific and technical excellence.

The campaign is targeted at veterinarians who place high importance on quality of life and see endocrinology as a satisfying discipline.

Our customers will feel informed and empowered. And our people will feel proud and motivated.

CARDISURE®

Il trattamento di elezione dell'insufficienza cardiaca nel cane

Con il miglior costo/efficacia

Case Study: Italy

By 2013, DVP EU had a sales and marketing organisation in every major European market with the exception of one, the *c.*€650m Italian market. Dechra's product portfolio was already established in Italy, with over 20 product licences covering multi-species in both CAP and FAP which were exported to and sold by eight distribution partners.

However, to deliver on our strategic pillar of geographical expansion, we recognised that this market offered unexploited potential. We believed that with our own sales team focusing solely on our own portfolio, we could increase sales and capture the whole margin.

The Italian system sees independent, self-employed sales agents work with product manufacturers and distributors, receiving commission as a percentage of sales. This meant that only a small 'back office' team, led by a country manager, would be needed. The costs of establishing this team would be more than covered by the increased sales we believed our team could generate and the higher margins achieved by cutting out the distribution middle man.

We recruited a country manager and a number of staff who had previously worked for Janssen Pharmaceutica, a company that had distributed Dechra products for a number of years in Italy.

These new members of the Dechra Italian team have excellent experience (selling Dechra products for over ten years) and vital knowledge of the local market, ensuring the establishment of the new entity was a smooth process.

Dechra's sales and marketing team in Italy began selling on 1 March; the phasing out of the eight distribution partners is ongoing.

Phycox® ONE soft chews

THE ONE JOINT SUPPLEMENT FOR ALL FOUR LEGS

Case Study: PSPC Inc.

In May 2014 Dechra acquired the trade and assets of PSPC Inc., a Florida US based business, to enhance our product portfolio. As is often the case in business development, the first contact was made 15 months earlier. We started the initial discussions to acquire the business at a world veterinary congress (NAVC) in January 2013 as we had recognised that PSPC's principal product would be an excellent addition to our portfolio and add further critical mass to our US business.

The principal product of the business, *Phycox*, is a patented nutraceutical prescribed by veterinary surgeons as a supplement for dogs and horses with osteoarthritis and poor joint health. *Phycox* contains glucosamine, MSM, creatine, antioxidants and phycocyanin. Phycocyanin is an extract from blue-green algae that has a patent which supports its use as a COX-2 selective agent that alleviates pain and inflammation without the side effects which occur with NSAID that are not COX-2 selective. The use of phycocyanin is unique to *Phycox* and provides us with a significant marketing advantage in a market estimated to be US$55 million.

Phycox is available in a range of formulations suitable for dog breeds of all ages to support healthy joints as well as muscle and bone health. There is also a pack presentation indicated for horses, which is complementary to our equine product sector. Our initial marketing objective will be to increase the adoption of the product by new veterinary practices. Historically the product was sold through approximately 3,000 practices. By including *Phycox* in our basket of marketed products, we could potentially access most US veterinary clinics.

We were also keen on acquiring the business as it had other products in development, including a chewable canine product which is comparable to our European market leading brand, *Forthyron*, for the treatment of endocrine disorders in dogs. The product, to be branded *Levocrine*™ in the US, will be launched in the second half of our 2015 financial year and will be an excellent complementary product to our successful endocrine range.

03

Our Governance

Dechra®
Pharmaceuticals PLC

Our Governance

Board of Directors

Michael Redmond Non-Executive Chairman

Committee Membership
Nomination (Chairman), Remuneration.

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

Background
Michael joined the Company as a Non-Executive Director in April 2001, and was appointed Chairman in July 2002. He began his pharmaceutical career with Glaxo and went on to hold a number of senior positions within Schering Plough Corporation. In 1991, he joined Fisons plc and in 1993 was appointed to the Board as Managing Director of the group's pharmaceuticals division. Michael left Fisons in 1996 following its takeover by RPR.

External Appointments
In November 2009, Michael was appointed Chairman of Abcam PLC, an AIM listed company, previously having held the post of Deputy Chairman (appointed February 2009). Michael has announced his intention to stand down from this position at Abcam's 2014 Annual General Meeting.

Ian Page Chief Executive Officer

Committee Membership
Not applicable.

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

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

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

Anne-Francoise Nesmes Chief Financial Officer

Committee Membership
Not applicable.

Skills and Experience
Anne-Francoise has considerable experience in the pharmaceutical industry covering all finance activities from R&D, manufacturing and commercial finance as well as corporate finance. Having worked in international organisations, she brings a strong focus on process improvements, governance, M&A and strategy execution.

Background
Anne-Francoise was appointed Chief Financial Officer in April 2013. Prior to joining the Group, Anne-Francoise worked at GlaxoSmithKline PLC (GSK) for over 15 years, where she held a number of finance roles including Senior Vice-President, Finance, of the global vaccines business unit based in Belgium. With GSK, Anne-Francoise developed her experience in a variety of roles including internal audit, corporate planning and commercial finance and between 2003 and 2006 was Vice-President Finance Controller for Europe. Prior to this, she held finance roles with John Crane, Tetra Pak, ADP and Caterpillar UK.

External Appointments
None.

Tony Griffin Managing Director, Dechra Veterinary Products EU

Committee Membership
Not applicable.

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

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

External Appointments
None.

Ishbel Macpherson Senior Independent Non-Executive Director

Committee Membership
Audit, Nomination, Remuneration.

Skills and Experience
Ishbel has detailed knowledge and understanding of the institutional investor community gained over 20 years' experience as an investment banker, specialising in UK mid-market corporate finance. She has solid PLC Board experience in a variety of roles, including Chairman, Audit Committee and Remuneration Committee Chairman.

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

External Appointments
Ishbel is a Non-Executive Director at Dignity plc and Galliford Try plc. She is also Senior Independent Director at Bonmarche Holdings plc and Chairman of Speedy Hire plc.

Dr Christopher Richards Non-Executive Director

Committee Membership
Remuneration (Chairman), Audit, Nomination.

Skills and Experience
Chris has more than 30 years' experience of the development and marketing of highly regulated products for the agrochemical and related industries. He has extensive international experience, which includes more than ten years working in Asia and South America.

Background
Chris joined the Group as a Non-Executive Director in December 2010. He is Chairman of Arysta LifeScience Corporation, having previously been its President and Chief Executive Officer from 2004 to 2009. Arysta is a Japan-domiciled international company, developing and marketing crop protection products in more than 125 countries worldwide. Before joining Arysta, Chris spent 20 years in international management and leadership roles with Syngenta Crop Protection and its predecessor companies.

External Appointments
Chris holds a number of non-executive directorships including Cibus Global Limited (appointed November 2011), and he is Chairman of Oxitec Limited (appointed January 2012) and Plant Health Care PLC (appointed July 2012).

Julian Heslop Non-Executive Director

Committee Membership
Audit (Chairman), Nomination, Remuneration.

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

Background
Julian joined the Board in January 2013. He served as Chief Financial Officer of GSK between 2005 and 2011, having previously been appointed its Senior Vice President, Operations Controller between 2001 and 2005 and as Financial Controller of Glaxo Wellcome PLC between 1998 and 2000. Prior to this, Julian held senior finance roles at Grand Metropolitan PLC and Imperial Brewing and Leisure. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

External Appointments
Julian was appointed as a Non-Executive Director at Revolymer PLC in July 2012 and is their Audit Committee Chairman. He is also Chairman of the Audit Committee of the Royal Academy of Arts.

Zoe Goulding Company Secretary and Solicitor

Committee Membership
Not applicable.

Skills and Experience
Zoe has over 14 years' experience as a Solicitor having held positions both in private practice and in-house.

Background
Zoe was appointed as Company Secretary in July 2007. Prior to joining the Group she worked at Deloitte LLP, Eversheds LLP and Brammer plc.

External Appointments
None.

Letter from the Chairman on Governance

Michael Redmond
Non-Executive Chairman

Dear Shareholder

On behalf of the Board I am pleased to present Dechra's Corporate Governance Report for the year ended 30 June 2014.

This has been a year of strategic transformation for Dechra, following the divestment of our Services Segment and subsequent refinement of our strategy focusing on being a pure international veterinary pharmaceutical and related products company. The Board understands the importance of ensuring that there is a strong governance framework in place, which underpins Dechra's ability to achieve its strategic goals, whilst still allowing the management of the business to exercise their skills and experience in an entrepreneurial manner. This report details the Company's governance framework and provides an overview of how the Company has applied the main principles of the UK Corporate Governance Code (the Code) throughout the year.

Leadership

During the year there were a number of Board changes: Neil Warner retired at the Annual General Meeting in October 2013, following which, Ishbel Macpherson was appointed as the Senior Independent Director and Julian Heslop as the Audit Committee Chairman; at the beginning of 2014 Ed Torr stood down as an Executive Director. Both Neil and Ed have played an instrumental part in the evolution and growth of Dechra and on behalf of the Board I would like to thank them for their commitment, loyalty and hard work for the business over the years.

In terms of my tenure as Chairman, it has been decided by the Nomination Committee that, given the changes to the Board over the past few years, it would be prudent for me to remain in position until the 2016 Annual General Meeting. This will allow the newly refreshed Board to settle into their roles and consolidate their understanding of the Group over a reasonable period of time. The search for my successor will be overseen by Ishbel Macpherson and will commence in early 2015.

Effectiveness

During the year Independent Audit Limited were commissioned to carry out an independent external evaluation of the Board and its Committees. The findings of the evaluation and the corresponding actions are detailed within the report. The Board will now work together over the coming year to implement the evaluation's recommendations. Overall, the Board was considered to have the requisite skills and experience necessary to take the business forward.

Accountability

The Board has worked alongside Deloitte LLP during the year to review and strengthen the risk assessment framework across the Group. The newly formed Senior Executive Team (SET) is seen as pivotal in ensuring that the risk framework is embedded across the Group, and the Board's rolling agenda now encompasses detailed reviews of each of the risks identified. Further detail in respect of this project can be found on pages 46 to 49.

Further detail in respect of the SET can be found on pages 32 to 33.

View further content on our website: www.dechra.com

The new Code provision requires the Directors to explain their responsibility for preparing the Annual Report and Accounts and confirm that they consider, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the performance, strategy and business model of the Group. The Audit Committee has been asked to assist in reviewing the process undertaken by management. Further detail in relation to this is included in the Audit Committee Report on page 81. Following assurance from the Audit Committee the Board is able to give this confirmation.

Relations with Shareholders

The Annual General Meeting will be held in London on 24 October and I would like to take this opportunity to encourage our shareholders to attend. As ever, it will provide investors with an opportunity to meet the Board and ask any questions that you may have in respect of the Group's activities.

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

Michael Redmond
Non-Executive Chairman
8 September 2014

Corporate Governance

Compliance with the 2012 Code

The Code establishes the principles of good governance for companies; the following report describes how the Company has applied these principles to its activities. The Board remains committed to maintaining high standards of corporate governance. In the opinion of the Directors, the Company has complied with the Code (June 2010 and September 2012) throughout the period.

Leadership

The Role of the Board

The Board's primary responsibility is to promote the long term success of the Company by the creation and delivery of sustainable shareholder value. The Board aims to achieve this through the establishment and delivery of the Group's strategy and ongoing monitoring of its progress. Following the divestment of the Services Segment the Board refined its strategy around four growth drivers:

- Product Development;
- Portfolio Focus;
- Geographical Expansion; and
- Acquisition.

Accompanying KPI's have been developed over the year in order to monitor progress of the implementation and delivery of the strategic plan. Further details are provided on pages 44 to 45.

Board Membership

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

The Chairman

The primary role of the Chairman, Mike Redmond, is to:

- ensure the effectiveness of the Board in all aspects of its role;
- facilitate the effective contribution of the Non-Executive Directors, ensuring that all decisions are subject to constructive debate and supported by sound decision making processes; and
- lead the Board in the determination of its strategy and the achievement of its objectives.

The Chairman maintains a strong working relationship with Ian Page, the Chief Executive Officer, and works closely with him to ensure that Board decisions and strategy are implemented throughout the Group. There is a clear division of the two roles and their corresponding responsibilities, which were reviewed and updated during the year.

The Chairman, at the time of his appointment, met and continues to meet the independence criteria defined within the Code. Further details in relation to the tenure of the Chairman can be found in the Nomination Committee Report on pages 84 to 85.

Non-Executive Directors

Throughout the year the Non-Executive Directors have provided a solid, independent element to the Board ensuring that decisions are constructively challenged and debated. It is considered that each of the Non-Executive Directors brings with them a breadth of experience which adds value to the decision making of the Board as well as the formulation and progression of the Dechra strategy.

Senior Independent Director

Following Neil Warner's retirement from the Board in October 2013 Ishbel Macpherson was appointed as the Senior Independent Director. She provides a sounding board for the Chairman and is available to shareholders if they have concerns which contact through the normal channels has failed to resolve or for which such contact is inappropriate. During the course of the forthcoming year Ishbel will take the lead responsibility for the recruitment of the Chairman's successor.

Chief Executive Officer

The Chief Executive Officer, Ian Page, has day-to-day responsibility for the management of the Group. Alongside the SET, he develops the Group strategy and, once approved by the Board, implements this throughout the business.

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

Chief Financial Officer

The Chief Financial Officer, Anne-Francoise Nesmes, has day-to-day responsibility for financial planning and reporting for the Group. She is also responsible for managing the financial risks and works with the Chief Executive Officer on all strategic matters.

Managing Director of Dechra Veterinary Products EU

The DVP EU Managing Director, Tony Griffin, has responsibility for the majority of the Group's turnover and roll out of the Group's strategy across the EU. He is also the nominated Director for health, safety and environmental matters.

Company Secretary

The Board is assisted by the Company Secretary, Zoe Goulding. The primary role of the Company Secretary is to advise the Board on matters of procedure and governance, ensuring that all required information is made available to the Board on a timely basis. Both the appointment and removal of the Company Secretary is a matter for the Board as a whole.

Matters Reserved for the Board

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

Strategy and Management	Approval and monitoring of long term objectives and strategy Approval of the Group's operating and capital expenditure budgets Major organisational changes Regular reviews of business performance
Financial Reporting	Approval of the Annual and Half-Yearly Reports and dividend policy Approval of development expenditure Approval of budget Approval of treasury policy
Internal Controls	Review and approval of internal controls and risk management policies and processes
Corporate Governance	Board and Committee composition Corporate Governance matters Approval of policies such as Health and Safety and the Anti-Bribery and Anti-Corruption Policy

Board Meetings

Directors are expected to attend all Board and Committee meetings of which they are a member. The Board is scheduled to meet nine times per year. During the year two additional meetings were held; one in relation to the disposal of the Services Segment and one in relation to the acquisition of the trade and assets of PSPC Inc.

Attendance at the Board and Committee meetings during the year to 30 June 2014 is set out in the table below:

	Mike Redmond	Ian Page	Anne-Francoise Nesmes	Tony Griffin	Ishbel Macpherson	Dr Chris Richards	Julian Heslop	Ed Torr‡	Neil Warner†
Appointment Date	19 April 2001	13 June 1997	22 April 2013	1 November 2012	1 February 2013	1 December 2010	1 January 2013	31 October 1997	2 May 2003
Board	11	11	11	11	11	11	11	5	1
Audit Committee	n/a	n/a	n/a	n/a	4	4	4	n/a	1
Nomination Committee	1	1	n/a	n/a	1	1	1	n/a	n/a
Remuneration Committee	6	n/a	n/a	n/a	6	6	6	n/a	2

† Neil Warner attended one out of three Board meetings, two out of two Remuneration Committee meetings and one out of one Audit Committee meetings based on the number of meetings held prior to his date of retirement.

‡ Ed Torr attended five out of six Board meetings based on his date of resignation.

Corporate Governance continued

It is understood that there may be situations, either due to prior commitments or circumstances beyond their control, which mean a Director is unable to attend a Board or Committee meeting. In this situation the Board papers are still provided allowing the Director to raise any queries or discussion points either through the Chairman or Company Secretary, thereby allowing their views to be fully discussed at the meeting. Following the meeting any Director who was unable to attend is provided with the opportunity to discuss the meeting with either the Chairman, Company Secretary or any Executive Director.

The Company Secretary ensures that an accurate record of each Board meeting is made which is circulated to the Board as soon as practicable after the meeting. Should Directors have concerns of any nature which cannot be resolved within the Board meeting, they have the right to ensure their view is recorded in the minutes. On resignation, should a Non-Executive Director have any concerns, they have a right to provide a written statement for circulation to the Board.

Board Meeting Agenda and Papers

The Directors are supplied in a timely manner with all relevant documentation and financial information to assist them in the discharge of their duties. Prior to all Board meetings an agenda and supporting documentation are circulated to the Board.

During the year, in addition to its routine business, the Board considered the following matters:

5 July 2013 (Northwich)	**9 July 2013** (Special meeting via telephone conference)	**29 August 2013** (Northwich)	**17/18 October 2013** (Northwich)	**6 December 2014** (London)	**9 January 2014** (Northwich)
• Product Development presentation by Susan Longhofer • Review of the consolidated budget 2014 • Services Segment disposal update • Risk Assessment Review	• Approval of the disposal of the Services Segment	• Review year end results • Board evaluation	• Review quarter one results and approval of amended budget process • Review and approval of the capex for the Liquids, Creams and Ointments facilities upgrade at Skipton • Strategy discussion • Product Pipeline review	• Product Development presentation by Susan Longhofer • Update on internal controls/risk management project • Post *Eurovet* acquisition review • Review of Dechra's Operating Segments • Review of delegated authorities • Six monthly health and safety review • HR Director recruitment update	• Review quarter two results • HR Director recruitment update • Update on key financial projects • 5+7 re-forecast and review of pre-close trading statement • Review and approval of DVP EU strategic plan • Review and approval of DVP Italy business plan

Every meeting agenda comprises reports from the following individuals:

- Chief Executive Officer;
- Chief Financial Officer;
- Managing Director and Finance Director of each Business Unit;
- Group HR Director;
- Product Development and Regulatory Affairs Director; and
- Group IT Director.

In addition, a health and safety update is received at each meeting.

Each year an annual strategic agenda is drawn up and approved by the Board. This enables the Board to focus on and discuss key strategic areas on a regular basis and also ensures that a review of the risks surrounding that area, along with the appropriate mitigating actions, is carried out. This provides an opportunity for each member of the SET, along with other senior managers in the business, to present to the Board in respect of their individual areas of responsibility. It also ensures that the Board gains a more in-depth understanding of the overall business and how the Group strategy is deployed and monitored.

The Chairman and the Non-Executive Directors generally meet the night before each Board meeting which allows them time to review and discuss any matters arising from the agenda without the Executive Directors being present. The Chairman also meets regularly with the Chief Executive Officer outside of the scheduled Board meetings.

21 February 2014 (Northwich)	**3 April 2014** (Birmingham)	**1 May 2014** (Northwich)	**14 May 2014** (Special meeting via telephone conference)	**6 June 2014** (Sansaw, Shrewsbury)
• Review of half-yearly results • IT Strategy and Cyber Risk presentation by Allen Mellor • Strategic plan update • Board evaluation tender update • Review of delegated authorities • Review of PSPC Inc. trade and assets acquisition	• *Vetoryl* marketing presentation by Giles Coley • DVP US Strategy presentation by Mike Eldred and Nancy Zimmerman • Review and approval of revised KPIs • Update on key financial Projects • Update on change of Registrar	• Review quarter three results • Six monthly review of strategic plan • Review and approval of strategic milestones • 8+4 re-forecast • Review of *Phycox* acquisition	• Review of the acquisition of the trade and assets of PSPC Inc. • Establishment of a committee to finalise and approve the acquisition	• DVP Canada Business Plan presentation by Mike Eldred and Paul Ray • DVP UK Strategy and Product Marketing presentations by Mark Floyd and Ellie Rothnie • Six monthly health and safety review • Review and approval of treasury policy • Review of new banking facilities • Review and approval of Terms of Reference for the Chief Executive Officer and the Chairman • Review and approval of matters reserved for the Board

Corporate Governance continued

Board Committees

The Board has formally delegated specific responsibilities to Committees, in particular the Audit, Remuneration and Nomination Committees. A summary of the terms of reference of each of the Committees is set out in the table below. The full terms of reference for each of these Committees are available on the Company's website or on request from the Company Secretary.

Committee	Role and Terms of Reference	Membership Required under the Terms of Reference	Committee Report on Pages
Audit	The main responsibilities are: • to monitor the integrity of the financial statements of the Group, and assist the Board in ensuring that the Annual Report, taken as a whole, is fair, balanced and understandable; • to review the effectiveness of the Group's internal financial controls systems as described on pages 81 to 82; • to oversee the relationship with the external auditor, monitor their independence and objectivity, and set the policy for non-audit work; and • to make recommendations to the Board on the requirement for an internal audit function.	• At least three Non-Executive Directors. • All members should be independent Non-Executive Directors.	78 to 83
Remuneration	The main responsibilities are: • to determine the remuneration, bonuses, long term incentive arrangements, contract terms and other benefits in respect of the Executive Directors and the Chairman; • to oversee any major changes in employee benefit structures; and • to approve the design of any employee share schemes.	• At least three Non-Executive Directors. • All members should be independent Non-Executive Directors.	87 to 105
Nomination	The main responsibilities are: • to oversee the plans for management succession; • to recommend appointments to the Board; • to evaluate the effectiveness of the Non-Executive Directors; and • to consider the structure, size and composition of the Board.	• At least three. • A majority of the members should be independent Non-Executive Directors.	84 to 85

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

Director Insurance and Indemnities

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

Effectiveness

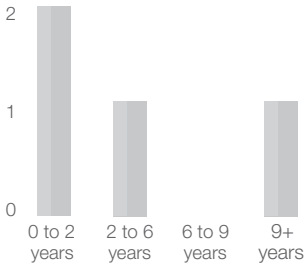
Board Balance and Independence

The Board recognises and understands the importance of balance and refreshment in terms of its composition. The following changes have taken place at Board level over the past 12 months:

- The retirement of Neil Warner as Senior Independent Director and Chairman of the Audit Committee: 17 October 2013
- The resignation of Ed Torr as Business Development Director: 31 January 2014

As stated earlier in this report, the Chairman will stand down at the 2016 Annual General Meeting. The search for his successor will commence in early 2015.

Length of Tenure of Chairman and Non-Executives Directors



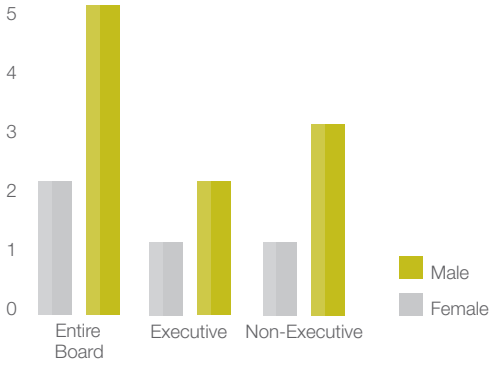
Board Composition

The Board considers that all the Non-Executive Directors are independent of management and free of any business or other relationship which could materially interfere with, or compromise, their ability to exercise independent judgement. This independence of mind provides them with the ability to challenge decisions and think strategically which is integral to the decision making process of the Board.

- Non-Executive Chairman **14.28%**
- Non-Executive Directors **42.86%**
- Executive Directors **42.86%**

Diversity

The Board understands the importance of having a diverse membership and recognises that diversity encompasses not only gender but also background and experience. However, the Board does not have a formal diversity policy and is generally opposed to the idea of stated quotas for females. The Board believes that appointments should be made solely on merit, the key criterion being whether or not the appointee can add to or complement the existing range of skills and experience on the Board.



SET

- Male **55.6%**
- Female **44.4%**

Overall Workforce

- Male **47.6%**
- Female **52.4%**

In terms of female representation below Board level 44.4% of the SET and 52.4% of the overall workforce are female.

Conflicts of Interest

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

Corporate Governance continued

Induction and Training

In order to ensure that the Board maintains its knowledge and familiarity with the Group's operations at least one Board meeting per year is held at one of the Group's operational sites. During the year a Board meeting was held at Dechra Veterinary Products UK in Sansaw. This provided the Board with an informal opportunity to meet with senior management based at this site.

Any newly appointed Directors are provided with comprehensive documentation aimed at providing information in relation to the remit and obligations of the role, current areas under consideration for the Board and the latest broker reports. New Directors are also offered the opportunity to visit the various business units in order to allow them to meet with the executive teams and to be shown around the operations. Field visits with members of the UK sales team are currently being organised for each of the Non-Executive Directors and the Chairman. This will give them the opportunity to observe the sales teams activity in the field and their day-to-day interaction with practising veterinarians.

The Chairman and Company Secretary are aware of the ongoing requirement to review and agree with each Director their training needs. In order to assist with these training requirements the Company Secretary provides briefings for the Directors, where necessary, that cover a number of legal and regulatory changes and developments relevant to the Director's areas of responsibility. During the year these briefings included an update on the Directors' Remuneration Report Regulations, changes to the Code and the new strategic report proposals. In addition, the Company Secretary informs the Directors of any external training courses which may be of relevance.

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

Board Evaluation

The Board undertakes an annual evaluation of its performance and that of its Committees.

- The 2013 Board evaluation:
  An internal evaluation was completed during 2012/2013 focusing on the following areas: (i) Board composition; (ii) strategy review process; (iii) the format of Board meetings and the decision process; (iv) training and development; (v) the performance of the Board and the individual Directors; (vi) Corporate Governance; (vii) leadership and culture; and (viii) risk assessment. One to one meetings were held by the Chairman with each of the Executive and Non-Executive Directors and Company Secretary. The evaluation of the Chairman was undertaken by the Senior Independent Director. The findings of the internal evaluation were then discussed at the August 2013 Board Meeting. Overall it was noted that no new issues of material significance had been raised during the review, rather input revolved around progress of the previous year's action points. The main action points were as follows:

Action	Progress
Following the divestment of the Services Segment a refinement of the Group strategy was required.	A refinement of the Group strategy commenced with a SET workshop which highlighted the main areas of strategic focus. Following this the Chief Executive Officer and Chief Financial Officer drafted a comprehensive strategic plan for discussion with the Board at its October meeting. The plan was approved by the Board, following which, strategic milestones and KPI's were established to enable that progress of the strategy could be appropriately monitored. More detail in relation to the strategy can be found on pages 20 to 22 and the KPI's on pages 44 to 45.
Review of the internal controls and risk assessment process was to be undertaken.	Following a successful tender, Deloitte LLP was appointed in December 2013 to assist with a review and strengthening of the current controls and risk assessment process. More detail in relation to the project can be found in the Audit Committee Report on page 81.
Recruitment of a Group HR Director.	An independent specialist HR recruitment company, Frazer Jones LLP, was retained in November 2013 to assist with the search for a new Group HR Director. Following a successful selection process, Katy Clough was appointed to the position at the end of April 2014. More detail in relation to the Group HR Director's strategic plan can be found on page 34.

- The 2014 Board evaluation
  During the year Independent Audit Limited (Independent Audit) was commissioned to carry out an external evaluation of the Board and its Committees. The process undertaken by Independent Audit involved:
  - a review of the Board and Committee minutes, agenda papers and ancillary documents; and
  - one to one meetings with each member of the Board and the Company Secretary. Prior to the meetings a list of 'focus items' was forwarded to each interviewee which included the role of the Board and its Committees, focus on strategic versus operational matters, the Chairman's leadership, relationships between Executive and Non-Executive Board members along with areas for discussion such as risk, Board composition and succession planning

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

  The findings were presented to the Board in July, at which it was agreed that time be set aside at the Board meeting to be held on 1 September to establish an implementation plan and time frame in relation to the various findings.

  The actions and progress made will be reported in next year's Annual Report.

The Board will perform a further external evaluation in three years' time. Internal evaluations will be completed during the intervening period.

Re-election of Directors

On appointment, Directors are required to seek election at their first Annual General Meeting following appointment. At the forthcoming Annual General Meeting, all of the Directors will retire and offer themselves for re-election. Each of the Directors has been subject to a formal evaluation by the Nomination Committee and it is considered that each Director continues to perform effectively and demonstrate commitment, not only in respect of their roles and responsibilities, but also in relation to the Group and its shareholders. The Board therefore recommends that shareholders vote in favour of their respective re-elections.

Accountability

Financial Reporting

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

The responsibilities of the Directors and the external auditor in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities and the Independent Auditor's Report on pages 115, and 118 to 120 respectively.

Preservation of Value

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

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 6 to 61. The principal risks that may affect the Group's future performance are set out on pages 46 to 49.

During the year being reported, trading has been resilient with an improvement in profitability being achieved. The net proceeds from the disposal of the Services Segment to Patterson Companies, Inc. in August 2013 were used to reduce the Group's debt through the payment and cancellation of the Group's then existing £50.0 million term loan facility and the reduction in amounts drawn under the Group's then existing £65.0 million revolving credit facility.

In order to ensure that the ongoing funding requirements of the Group are aligned to its strategic objectives, the Group has completed a refinancing and entered into a facilities agreement in September 2014 (the Facility Agreement) with a syndicate of banks comprising HSBC Bank plc, The Royal Bank of Scotland plc and Barclays Bank PLC (the Banks) under which a facility of £120.0 million was made available. The Facility Agreement includes a committed revolving credit facility of £90.0 million, together with an 'Accordion' facility of £30.0 million. The facility is committed for five years until September 2019.

As at 30 June 2014 the Group had cash balances of £26.8 million and net debt of £5.0 million.

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

Corporate Governance continued

Internal Control and Risk Management

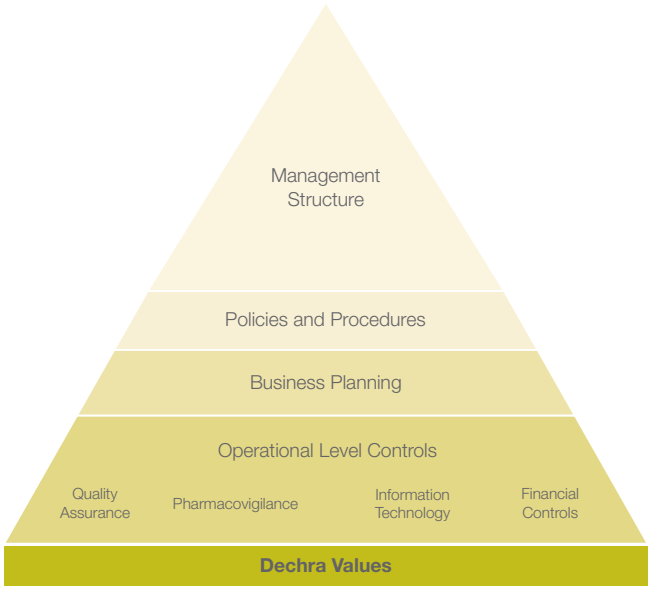
The Directors are responsible for maintaining the Group's system of internal control and risk management and for reviewing its effectiveness from a financial, operational and compliance perspective. These systems aim to:

- safeguard the Company's assets;
- ensure that proper accounting records are maintained;
- ensure compliance with statutory and regulatory requirements; and
- ensure the effectiveness and efficiency of operations.

The system of internal control is designed to mitigate rather than eliminate risk of failure of delivery of the business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has an established, ongoing and embedded framework of internal financial and operational controls for identifying, evaluating and managing the significant risks faced by the Group. A framework has been in place throughout the year under review, and has continued up to the date of approval of the Annual Report.

The Group's control framework comprises the following tiers and is underpinned by the Dechra Values.



- **Management Structure**

  The Board, assisted by the SET, ultimately sets the tone in relation to the level of risk and control which it is willing to take in achieving the Group's strategic goals.

  The Group is organised into Operating Segments within which there are a number of business units. Each business unit has its own Managing Director and executive team; there are clear reporting lines and delegated authorities embedded within all of the business units.

  Each business unit is represented at the SET by their respective Managing Director, along with the Executive Directors, Company Secretary, Group IT and HR Director. Together they aim to ensure that the Group policies, procedures and authority levels are consistently embedded across the Group and reviewed on a regular basis. Any amendments or actions arising from these reviews are then communicated by the SET to the Board.

- **Policies and Processes**

  There are a number of centrally defined financial, legal and compliance policies and procedures which are embedded across the Group:

  (i) Delegated Authorities: This document establishes both operational and financial levels of authority below Board level and is reviewed on an annual basis along with the schedule of matters reserved to the Board. The document aims to ensure that the authority levels in place provide a robust level of control but without hindering the day-to-day administration of the business.

  (ii) Anti-Bribery and Corruption: This policy has been implemented across the Group alongside training to all relevant employees. The policy aims to ensure that:

  - no bribes or facilitation payments are made;
  - all gifts and hospitality given or received are maintained within agreed limits and are recorded by the employees; and
  - all third party arrangements are reviewed in order to ascertain whether or not they could be deemed to be a significant bribery risk.

  (iii) Whistleblowing: This policy establishes a confidential channel of communication for employees to bring matters of concern about the running of the business to the attention of senior management. Upon being notified of such a concern, the policy sets out a defined process which allows a full investigation to take place and, where necessary, corrective action to be taken.

  (iv) Code of Business Conduct: This policy sets out the standards of conduct to be adopted by all employees when acting on behalf of the Group. In setting these standards the Board aims for Dechra to maintain a reputation for acting responsibly and with integrity. More information in relation to the Code of Business Conduct is provided within the Social, Ethical and Environmental Responsibilities Report on page 107.

  (v) Charitable Donations Policy: This policy sets out the authorised limits and types of charities to which charitable donations may be made. There are strict limitations on giving donations to businesses which Dechra may have had a previous commercial relationship with. More information in relation to the Charitable Donations Policy is provided within the Social, Ethical and Environmental Responsibilities Report on page 106.

- **Business Planning**
  Business Plans and Strategy Discussion: We have established a five year strategic plan which is reviewed and updated by the Board twice a year. This provides a framework within which a two year budget and forecasts are set with each business unit. The plans are reviewed by the Executive Directors, and then by the Board for ultimate approval. The businesses' performance during the financial year is monitored monthly against budget, forecasts and previous year. Relevant KPI's are also established which allow transparency of progress of both the Group's and business units' strategic goals.

  Pipeline Review: The pipeline is reviewed on a regular basis with a view to (i) ensuring that products within the pipeline are progressing according to schedule; and (ii) adding new ideas to the pipeline, after an initial exploratory review, to ensure a consistent flow of new products in Dechra's product portfolio; and (iii) measuring returns.

  Operational Level Controls
  Quality Assurance: Across the Dechra Manufacturing sites there is an established Quality Management System which, at the Skipton site, is accredited to BS 9001. This system of processes and procedures aims to ensure that all products leaving our manufacturing facilities have been manufactured to the highest standard.

  Pharmacovigilance: Dechra has invested heavily over several years on establishing a robust pharmacovigilance system with a view to ensuring that any adverse event reactions related to the use of our products are reported and dealt with promptly.

  Information Technology: Dechra first established Oracle at the Skipton site over seven years ago. Following the appointment of a Group IT Director, in 2012, there is a schedule and plan to implement the system across the Group.

  Financial Controls: Work has been carried out during the year to strengthen the financial controls across the Group. The financial control element is split into three stages:

  - Entity Control Levels: controls performed by Head Office and senior management across the Group;
  - Month End and Year End Procedures: controls performed by business unit management; and
  - Transactional Level Controls: Controls operated on a day-to-day basis.

  Together, these three levels of controls set the structure of Dechra's financial control framework which aims to prevent and detect misstatement or fraud.

- **Dechra Values**
  It is the Board's aim that the Dechra Values should underpin all actions and behaviour of the Group's employees providing an important role in ensuring that they understand what is expected of them and how they can assist in achieving the Group's strategic objectives.

Relations with Shareholders

Dialogue with Institutional Shareholders

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

Feedback is collated by the Company's brokers after such presentations. The feedback is then circulated to the Board for review and consideration. In addition, the Board is provided with a monthly market summary report which reports on share price and share register movements. Where material changes in respect of remuneration or governance are proposed the Board seeks to consult with its major shareholders before implementing such changes.

Constructive use of the Annual General Meeting

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

Letter from the Audit Committee Chairman

Julian Heslop
Audit Committee Chairman

Further detail in relation to risk framework and management can be found on pages 46 to 49.

View further content on our website: www.dechra.com

Dear Shareholder

Following my first year as Chairman of the Audit Committee, I am pleased to present this year's Audit Committee Report which fully reflects the changes required under the UK Corporate Governance Code (the Code) and the Guidance on Audit Committees issued by the Financial Reporting Council (FRC) in September 2012. The report is split into four sections which provide an overview on:

- the Committee's purpose and function;
- its major activities during the year (including primary areas of judgement on the financial results);
- our review of internal financial controls and the requirement for an internal audit function; and
- our interaction with the Company's external auditor and the results of our assessment of the quality of their work and their integrity and independence.

During the period under review we have focused particular attention on significant matters such as the profit on the divestment of our Services Segment and the valuation of intangibles. This is particularly important where judgement is involved and is supported by the independent review and challenge of our external auditor, KPMG LLP, and our discussions with them. The following report makes clear the specific judgements and factors the Committee considered in reviewing these matters on page 80.

We appointed Deloitte LLP during the year to review the Group's internal financial controls and risk framework and management are now working closely with Deloitte to implement recommendations arising from their report. The Committee will continue to monitor progress on a regular basis.

We have also continued to work closely with KPMG throughout the 2014 financial year. In advance of the Committee's review of both the half-yearly and year end results, I have held a meeting with the Lead Audit Partner, his team and Anne-Francoise Nesmes, the Chief Financial Officer, to review and discuss the key matters impacting the results and any major audit points raised. I also met privately with the Lead Audit Partner prior to the Committee's review of the year end results. As set out in last year's report the Committee will undertake an external audit tender process during the next financial year to coincide with the rotation of the current Lead Audit Partner. The successful audit firm will be responsible for all external audit work from the commencement of the 2016 financial year.

Finally, we specifically reviewed, at the request of the Board, whether the 2014 Annual Report was fair, balanced and understandable and concluded that it was. The basis supporting our conclusion is set out on page 81.

Julian Heslop
Audit Committee Chairman

Audit Committee Report

The Committee's Purpose and Function

Membership, Meetings and Attendance

The membership of the Audit Committee (the Committee), together with appointment dates and attendance at meetings is detailed on page 69 of the Corporate Governance Report.

In accordance with the Code, the Board considers that Julian Heslop has recent and relevant financial experience as a result of his financial background and qualification. In addition, its other two members, Dr Chris Richards and Ishbel Macpherson provide different but specific skills and experience which support the Committee in meeting its objectives as set out in its terms of reference. The biographies of all Committee members are detailed on pages 64 to 65. All members of the Committee are considered to be independent, in line with the Code.

The Company Secretary, Zoe Goulding, also attends each meeting and acts as its secretary. Zoe Goulding assists the Chairman in ensuring that all Committee papers are provided prior to each meeting in a timely manner and provides advice to the Committee on all governance related matters.

The Lead Audit Partner together with the Chief Executive Officer and Chief Financial Officer attend each meeting at the Committee's invitation. Other members of the Board also normally attend each meeting together with the Group Financial Controller.

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

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

Role and Responsibilities

The main role and responsibilities of the Committee are set out in the written terms of reference which are available on the Company website at www.dechra.com. The Board reviewed the Committee's terms of reference during the year and amended them to reflect the updated Code and FRC Guidance on Audit Committees. Further details on the terms of reference are provided on page 72 of the Corporate Governance Report.

Major Activities of the Committee during the year

The Committee met four times since the last Annual Report was issued. The meetings are timed to coincide with the financial reporting timetable of the Company. The Chairman and the Company Secretary have developed an annual programme of business, in order to ensure that standing items are appropriately considered alongside any exceptional matters that may arise during the course of the year. The table below provides an overview of the main matters discussed at the meetings.

Meeting Date	Main Activities
6 December 2013	• Meeting with Deloitte LLP (Deloitte), in their capacity as the newly appointed advisers in respect of the internal risk management and assurance project • Discussion and review of the tax strategy project update including approval of a new tax policy
20 February 2014	• Review of the Group's half-yearly report • Consideration of the Audit Memorandum prepared by the external auditor • Review of the Committee's terms of reference • Review of non-audit fee spend (including actual and projected spend) • Consideration of the progress of the internal risk management and assurance project • Meeting with the external auditor without management present
1 May 2014	• Review of the audit strategy for the year ended 30 June 2014 (including timetable, scope and fees) • Discussion in relation to the Company expectations of the external auditor and audit process • Review of the Anti-Bribery Policy and Company's Whistleblowing Policy • Consideration of the progress of the internal risk management and assurance project • Review of a new treasury policy and recommendation to the Board of its approval • Discussion of the programme of business for 2014/2015

1 September 2014	• Review of the Group's preliminary statement and draft Annual Report (including the Audit Committee Report) for the year ended 30 June 2014
	• Consideration of the Audit Memorandum prepared by the external auditor, including:
	  • review of accounting treatment of non-underlying items
	  • assessment of intangible assets and goodwill
	  • commentary on the general control environment across the Group
	• Review and approval of going concern statement
	• Review of the external audit effectiveness, external auditor independence and level of non-audit fees
	• Meeting with the external auditor without management present
	• Discussion in relation to timetable and process for the external audit tender
	• Fair, balanced and understandable assessment of the Annual Report

Audit Committee Report continued

All significant matters under consideration were supported by the appropriate justification paper and fully discussed in order to ensure that due and appropriate consideration was given before any decision was approved or action proposed. Further details in relation to a number of the matters listed are provided below:

- **Financial Judgements**

The Committee reviewed the annual financial statements and, earlier in the year, the half-yearly financial statements. This process included an analysis by management of key judgements made in determining the results over matters such as the carrying value of intangible assets; the Committee reviewed this in detail and endorsed management's judgements.

In reviewing both the annual and half-yearly financial statements the Committee gave particular attention to significant matters where judgement was involved, or which were complex in nature or where adjusted numbers were provided to enhance investors' understanding of the underlying performance. These matters were well supported by briefing papers provided by management and were specifically reviewed and agreed by the external auditor, KPMG, in their reports to the Committee and in related discussions. The key matters so reviewed comprised:

Significant risk considered by the Committee in relation to the financial statements	Corresponding actions taken by the Committee to address the issues
Review of the carrying value of intangible assets and goodwill of £196.2 million which represents 96% of the Group net assets.	The Committee reviewed the analysis provided by management which supported the underlying carrying values. Special attention was paid to the assumptions relating to future growth rates in the context of current underlying performance including the impact and calculation of terminal values. The impact of sensitivity analysis was also considered where relevant. In addition, the Committee focused on the expected longevity of the intangible assets. It also reviewed the discount rates used.
Significant judgements considered by the Committee in relation to the financial statements	**Corresponding actions taken by the Committee to address the issues**
Reporting of the impact of the completion of the disposal of the Services Segment in August 2013.	The disposal of the Services Segment gave rise to a post-tax profit on disposal of £38.6 million. The Committee reviewed the basis supporting this calculation including tax clearances received from HMRC and supporting audit work carried out by KPMG.
Review of the corporate tax rate on underlying continuing operations for the year of 20.1% (2013: 24.1%) following the disposal of the Services Segment and a strategic review carried out by Deloitte.	The detailed review of the Group's tax position and strategy moving forward, which was undertaken by Deloitte, was reviewed. The Committee discussed the key recommendations and risks in respect of corporate tax and considered KPMG's audit work and conclusions.
In order to assist investors with a better understanding of the underlying performance of the business, management present within the financial statements figures for underlying profit and earnings. This is reconciled to the figures provided in the financial statements and excludes matters such as intangible amortisation, profit on business disposal and acquisition related restructuring costs.	The Committee reviewed the basis for calculating the underlying figures and its consistency with previous year's figures. It also sought confirmation from the external auditor that they were satisfied with the accuracy of these figures.

- **Going Concern**

The Committee reviewed management's forecasts for profit, cash flow and net debt and the committed financing facilities available to the Group. Based on this, it concluded that it was appropriate to use the going concern principle for Group reporting. Further detail in relation to this is provided on page 75 of the Corporate Governance Report.

- **Fair, Balanced and Understandable Assessment of the Annual Report**

At the request of the Board, the Committee considered whether the 2014 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess Dechra's performance (pages 38 to 49), business model (page 14) and strategy (pages 20 to 22).

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

An integral part of the process was the Committee's final review; other Board members and the external auditor were invited so that issues could be debated and a final assessment made. The external auditor also confirmed that in their opinion the Annual Report was fair, balanced and understandable.

This assessment was carried out by the Committee on 1 September 2014, following which the Committee reported to the Board that it was satisfied that, taken as a whole, the Annual Report is fair, balanced and understandable.

- **Review of Policies and Procedures**

During the year the Committee reviewed the following policies:

- Anti-Bribery and Whistleblowing:
  The Committee reviewed the current documentation, as circulated to all employees within the Group, and noted that no further changes were required. The Company Secretary has ensured that the Committee is updated on a regular basis in respect of the ongoing training and monitoring of the policies across the Group. In respect of the whistleblowing policy, the Committee reviewed the process in place to report issues and to follow up on them.
- Treasury:
  An updated policy was discussed by the Committee. The document establishes clear responsibilities for the treasury operations of Dechra. In particular the policy defines what matters are reserved for the Board.
- Tax:
  The Committee reviewed and approved the tax policy which sets out the standards the Board applies in respect of the management of taxes and the governance it employs to ensure those standards are embedded throughout the global business. In particular, the tax policy governs how significant decisions in respect of tax are made and the circumstances which require Board approval.

Internal Financial Controls

The Board retains overall responsibility for establishing the systems of internal control and monitoring their ongoing effectiveness and also for the identification and management of risk. The Committee monitors and reviews the effectiveness of the Group's internal financial control activities and the requirement for an internal audit function. Further details in respect of the internal controls are provided within the Corporate Governance Report on pages 76 to 77.

Following the acquisition of *Eurovet* in 2012, the Committee agreed that the Group was of sufficient size and complexity to warrant the appointment of an internal audit function. The Committee commenced discussions in relation to the role specification in August 2012. However, following the resignation of the then Group Finance Director it was agreed that the discussions and subsequent recruitment be placed on hold until the new Chief Financial Officer, Anne-Francoise Nesmes, had taken up her role with the Company. Following Anne-Francoise's appointment, the Committee revisited the necessity for an internal audit function and agreed that the best approach was to seek tender invitations from a number of accountancy firms (excluding the external auditor) for a review of Dechra's existing enterprise risk management and internal financial controls and for an assessment of the resourcing of the internal audit and risk assurance function.

Following a successful proposal and presentation, Deloitte were appointed to the role. The project commenced in January 2014:

(i) Assessment of the Risk Management Process:
Deloitte carried out preliminary interviews with the risk owners from each Operating Segment and Head Office with a view to gaining an insight into their perceptions of the key risks and the current risk management framework. Following these interviews a risk workshop was attended by the SET which resulted in the validation of the existing risks and the identification of a number of new risks. From within the SET, owners have been identified to take responsibility for each of these risks and the matter will remain as a standing agenda item for all SET meetings going forward. In addition, each SET member is scheduled to present to the Board, on a rolling annual basis, to discuss strategic progress and risk management within their function.

Audit Committee Report continued

(ii) Review of Internal Financial Controls:
To date, Deloitte have carried out a review of the existing internal financial controls of each Operating Segment. This has comprised site visits to each of the finance functions including Head Office. Deloitte interviewed all relevant members of the finance teams in order to ascertain the key judgemental and complex areas within the accounts and identify the main areas of risk. Deloitte documented the existing controls and recommended specific actions to improve the control environment. The results of these reviews have been presented to the Committee throughout the process. Management are now working to embed these recommendations across the Group. The Committee is reviewing progress on a regular basis.

Finally the Committee reviewed the overall assessment of the Group's internal financial controls at its meeting on 1 September 2014. It concluded that there was reasonable assurance that internal financial controls operated effectively as referred to on pages 76 to 77 of the Corporate Governance Report. The Committee also reviewed at that meeting the proposal on how to resource the internal audit and risk assurance function going forward. Further detail will be provided in next year's Committee Report.

External Auditor

Audit Plan

KPMG agreed their audit plan with the Committee which included their audit scope, key audit risk areas and materiality. The Committee discussed the audit plan with KPMG and approved it together with the fees proposed.

Independence, effectiveness and objectivity of the audit process

The Committee reviews the independence, effectiveness and objectivity of KPMG each year based on:

- its own assessment of the quality of the audit plan, the rigour of the audit findings and conclusions and the extent to which the Lead Audit Partner understands and constructively challenges management;
- the results of a specific questionnaire on external auditor effectiveness and efficiency (further detail on which is provided below);
- a report prepared by KPMG setting out its processes to ensure independence and its confirmation of compliance with them;
- the level of non-audit fees as a percentage of the audit and half-yearly review fees paid to the external auditor, which were 52.4% (2013: 127.6%).

As stated above, a specific questionnaire has been formulated for completion by all finance directors across the Group who provided information and assistance to the external auditor. The questionnaire covered a number of areas, including:

- Quality of the audit team;
- Knowledge and understanding of the Group;
- Appropriateness of the areas of audit focus;
- Interaction with audit specialists; and
- Timeliness and adequacy of communication by the external auditor.

The results of the questionnaire were reported to the Committee at the meeting on 1 September 2014.

Based on the review set out above the Committee remains satisfied of the external auditor's independence, effectiveness and objectivity.

Re-appointment of External Auditor

At the forthcoming Annual General Meeting a resolution to appoint KPMG LLP as the external auditor and to authorise the Directors to set their remuneration will be proposed.

There are no contractual obligations that restrict the Committee's capacity to recommend a particular firm as external auditor and Dechra does not provide an indemnity to the external auditor.

External Audit Engagement Director Rotation

In line with the ethical standards of the Audit Practices Board the Lead Audit Partner is rotated every five years. The current Lead Audit Partner was appointed during the 2011 financial year and consequently will stand down following the completion of the audit of the 2015 financial results.

External Audit Firm Tendering

KPMG (as KPMG Audit Plc and latterly as KPMG LLP) has been appointed as the external auditor since the Company's formation in 1997 and their performance has been reviewed annually by the Committee since that time. The Committee has remained consistently satisfied with the level of independence of the external auditor and the integrity of the external audit process. However, the Committee is aware of the recommendations in the Code in relation to the expectation that the external audit is put out to tender every ten years. Therefore, as reported in the 2013 Annual Report, the Committee will undertake a tender process over the next nine months in line with the rotation of the Lead Audit Partner. This timing will allow the successful audit firm (not disallowing for the fact that this could be the incumbent firm) to take up its appointment when the current Lead Audit Partner stands down.

Non-Audit Assignments

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

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

The Committee firmly believes that there are certain non-audit services where it is appropriate for the Group to engage the external auditor. During the year, the external auditor was commissioned to carry out due diligence work in respect of the acquisition and assets of PSPC Inc. The external auditor was considered the most cost effective and appropriate firm to perform this work given their detailed knowledge of Dechra's business. In such cases safeguards are in place to ensure continued external auditor independence including the use of separate teams to undertake the non-audit work separately from the audit work. The Committee did not consider that the performance of this non-audit work would affect or impair the external auditor's integrity. This is consistent with the ethical standard published by the Accounting Practices Board.

The result of this policy is that:

(i) Deloitte was appointed in 2012 to undertake global tax compliance work in substitution for the external auditor and has subsequently been appointed during the year to undertake (a) a strategic tax review for the Group and (b) an enterprise risk management and internal financial controls project;

(ii) KPMG were prohibited from tendering for both the enterprise risk management and internal controls project and the global tax compliance work; and

(iii) during the course of the year Deloitte and PwC have been appointed to provide advice on employment and related tax advice.

A summary of audit and non-audit fees in relation to the year is provided in note 6 to the Group's financial statements. This shows that non-audit work represented 52.4% (2013: 127.6%) of the annual audit and half-yearly review fee, and reflects the policy set out above.

Letter from the Nomination Committee Chairman

Michael Redmond
Nomination Committee Chairman

Dear Shareholder

On behalf of the Board, I am pleased to present our first Nomination Committee Report. In previous years, a report on the activities of the Committee has been incorporated in the Corporate Governance Report. However, given the recent Board changes and the appointment of a new Group HR Director, Katy Clough, the Committee has re-focused its attention on succession planning, leadership development and talent management.

Dechra's stance in relation to diversity is detailed in the Corporate Governance Report.

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

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

Michael Redmond
Nomination Committee Chairman

Find out more about Our People Plan on page 34.

View further content on our website: www.dechra.com

Nomination Committee Report

Committee Membership and Attendance

The membership of the Committee, together with appointment dates and attendance at Meetings during the year, is set out on page 69 of the Corporate Governance Report. Other attendees at the meetings include the Group HR Director, the Chief Executive Officer and the Company Secretary (who acts as Secretary to the Committee).

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

Role and Responsibilities

The main role and responsibilities of the Committee are set out in the written terms of reference which are available on the Company website at www.dechra.com. The Committee's terms of reference are reviewed on an annual basis and during the 2014 financial year this took place at the February meeting. An overview of the terms of reference is detailed on page 72 of the Corporate Governance Report.

Principal Activities of the Committee during the year:

- Reviewing the Board Composition

  Following Neil Warner's decision to stand down from the Board at the 2013 Annual General Meeting, the Committee confirmed that Julian Heslop would be appointed as the Chairman of the Audit Committee and Ishbel Macpherson should be appointed as the Senior Independent Director.

  Given Ed Torr's decision to stand down from the Board at the beginning of 2014, it was agreed that there would be no requirement to appoint a replacement Non-Executive Director. The Board is considered to be fully compliant with the Code in relation to its balance of Executive and Non-Executive Directors.

- Review of the Chairman's Tenure

  In light of the prior commitment to shareholders to review the Chairman's tenure prior to the 2014 Annual General Meeting a review was carried out by the Committee, chaired by the Senior Independent Director. It was agreed that, given the number of changes which had taken place at Board level over the past 18 months and the strategic position of the Group following the divestment of the Services Segment, it remained in the best interests of the Group and its stakeholders for Michael Redmond to remain in position as Chairman until the 2016 Annual General Meeting. It was agreed that this would provide sufficient time to oversee the continued development of the newly refreshed Board and develop their understanding of Dechra further. The recruitment process for a successor will commence in early 2015.

  The Committee considers that Michael Redmond continues to lead the Board effectively and maintains his independence and integrity at all times. He continues to provide an invaluable contribution and insight to the Board by reason of both his previous pharmaceutical experience and the longevity of his association with the Company.

- A review of the initial observations of the incoming Group HR Director

  The Group HR Director provided her initial observations to the Committee in respect of a number of areas including succession planning, talent management planning and leadership development. In respect of succession planning, a review of the Board and Senior Executive Team has commenced with a view to ensuring that the skills and experience are maintained for the longer term. This planning will continue on a regular basis to ensure that the Group is managed by Executives with the necessary skills, experience and knowledge. In addition, the Board has a role to play in overseeing the management resources in the Group and approved, in principle, the plans to formalise a Group wide talent management and development programme. This will provide a robust process for providing information about the depth and quality of the leadership of the Group.

- Appraisal Process and Re-appointment of Directors

  Following an external evaluation, further details of which are provided on page 75 of the Corporate Governance Report, the Committee has concluded that each of the Directors seeking re-election continues to be an effective member of the Board. All of the Directors will stand down and be proposed for re-election at the 2014 Annual General Meeting.

Letter from the Remuneration Committee Chairman

Dr Christopher Richards
Remuneration Committee Chairman

Find out more in relation to the Directors' Remuneration Policy on pages 87 to 95.

View further content on our website: www.dechra.com

Dear Shareholder

On behalf of the Board, I am pleased to present Dechra's Remuneration Report for the year ended 30 June 2014.

To reflect the requirements of the revised remuneration reporting regulations, this report is presented in two sections: the Directors' Remuneration Policy and the Annual Report on Remuneration. The Directors' Remuneration Policy sets out our forward looking remuneration policy for Directors and will be subject to a binding vote at the 2014 Annual General Meeting. The Annual Report on Remuneration provides details of the amounts earned in respect of the year ended 30 June 2014 and how the Directors' Remuneration Policy will be implemented in the year commenced 1 July 2014. The Annual Report on Remuneration will be subject to an advisory vote at the 2014 Annual General Meeting.

As described in the Strategic Report, during the year the Group has made progress in each of its four strategic pillars:

- Portfolio Focus: we have shown growth in our key therapeutic areas;
- Product Development: we have received US and UK approval of a major new equine product, *Osphos*;
- Geographical Expansion: new subsidiaries have been established in Canada and Italy, which means that we can terminate existing distributor agreements in these territories, allowing us to retain the full margin going forward;
- Acquisition: in May 2014 we announced the acquisition of the trade and assets of PSPC Inc.

As a result of the progress in our strategy, we have delivered underlying profit before tax during the year of £39.9 million, an improvement of 18.8% on the prior year. As a consequence, bonus payments to Directors will be 80% of their maximum payment.

In respect of the LTIP performance conditions, relative TSR against FTSE Small Cap (of which Dechra was a member at the time of the grant of the Awards) is in the upper quartile, with the EPS underpin being achieved with underlying diluted EPS of 19.25%. This has resulted in a payout of 100% of the LTIP Awards which vested, based on performance to 30 June 2014. Further detail in relation to the bonus payment and LTIP vesting are contained on pages 97 and 99 of the following report.

No changes have been made to the quantum or structure of either the annual bonus or the LTIP parameters for the forthcoming year.

During the year under review all Executive Directors' agreed to waive an increase in their base salaries. Ian Page has also waived his increase for the forthcoming year. All other Executive Directors' base salaries have been increased by 3% with effect from 1 July 2014, which is in line with the range of salary increases given to the wider workforce.

Finally, the Committee and I believe that ongoing dialogue with our major shareholders is of key importance. Should you have any queries in relation to this report please do not hesitate to contact me or the Company Secretary.

Dr Christopher Richards
Remuneration Committee Chairman

Directors' Remuneration Report

Introduction — Key Principles

Dechra's policy is to provide remuneration packages that:

- promote the long term success of Dechra, with stretching performance conditions, which are rigorously applied;
- provide appropriate alignment between Dechra's strategic goals, shareholder returns and executive reward; and
- have a competitive mix of base salary and short and long term incentives, with a significant proportion of the package determined by stretching targets linked to Dechra's performance.

In defining Dechra's remuneration policy, the Committee takes into account best practice guidelines set by institutional investor bodies such as the Association of British Insurers. The Chairman of the Company along with the Chairman of the Committee ensure that contact is maintained with major shareholders about remuneration matters.

Directors' Remuneration Policy

This part of the Directors' Remuneration Report sets out Dechra's Directors' Remuneration Policy which, subject to shareholder approval at the 2014 Annual General Meeting, shall take binding effect from the close of that meeting.

Policy Table for Executive Directors:

Element: Base Salary

Purpose and link to strategy

Core element of fixed remuneration reflecting the individual's role and experience.

Operation

The Committee ordinarily reviews base salaries annually taking into account a number of factors including (but not limited to) the value of the individual, their skills and experience and performance.

The Committee also takes into consideration:

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

Maximum opportunity

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

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

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

Performance measure

Not applicable.

Directors' Remuneration Report continued

Element: Pension

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

Operation
The Company operates a Group Stakeholder personal pension scheme that has been effective since 1 July 2005. All Executive Directors excluding Tony Griffin are members of this scheme.

Tony Griffin participates in a defined benefit pension plan which has been established in the Netherlands. This is a funded career average pay arrangement, where pensionable salary is subject to a €50,000 cap. Salary over this cap is paid into a defined contribution pension plan.

Maximum opportunity
The Company contributes up to 14% of salary to a pension scheme on behalf of the Executive Directors, and/or as a salary supplement in lieu of pension contributions where appropriate.

Performance measure
Not applicable.

Element: Benefits

Purpose and link to strategy
Provided on a market competitive basis.

Operation
The Company provides benefits in line with market practice and includes the use of a fully expensed car, medical cover and life assurance scheme.

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

Maximum opportunity
Whilst the Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value is set at a level which the Committee considers to be appropriately positioned taking into account relevant market levels based on the nature and location of the role and individual circumstances.

Performance measure
Not applicable.

Element: Annual Bonus

Purpose and link to strategy

The executive bonus scheme rewards Executive Directors for achieving financial and strategic targets in the relevant year by reference to operational targets and individual objectives.

Operation

Targets are reviewed annually and any pay-out is determined by the Committee after the year end based on targets set for the financial period.

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

Maximum opportunity

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

Performance measure

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

The personal objectives for the Chief Executive Officer are set by the Chairman. The personal objectives for other Executive Directors are set by the Chief Executive Officer.

At least 75% of the bonus opportunity is based on financial measures (which may include profit before tax).

For financial measures, up to 15% of the maximum for the financial element is earned for threshold performance, rising to up to 50% of the maximum for the financial element for target performance and 100% of the maximum for the financial element for maximum performance.

Vesting of the bonus in respect of strategic measures or individual objectives will be between 0% and 100% based on the Committee's assessment of the extent to which the relevant metric or objective has been met.

For 2015, a bonus of up to 90% of salary may be earned based on underlying profit before tax targets and up to 10% of salary based on personal objectives, as described on page 104.

Directors' Remuneration Report continued

Element: Long Term Incentive Plan (LTIP)

Purpose and link to strategy

The LTIP provides a clear link between the remuneration of the Executive Directors and the creation of value for shareholders by rewarding the Executive Directors for the achievement of longer term objectives aligned to shareholders' interests.

Operation

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

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

An additional payment (in the form of cash or shares) may be made in respect of shares which vest under the LTIP to reflect the value of dividends which would have been paid on those shares during the vesting period (this payment may assume that dividends had been reinvested in Dechra shares on a cumulative basis).

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

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

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

Maximum opportunity

The maximum award level under the LTIP in respect of any financial year is 200% of salary.

For the 2015 financial year, the following award levels will apply:

- Chief Executive Officer — 200%
- Chief Financial Officer — 150%
- Other Executive Directors — 100%

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

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

Performance measure

Performance measures under the LTIP will be based on financial measures (which may include, but are not limited to, earnings per share growth, relative total shareholder return, return on capital employed and free cash flow).

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

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

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

For 2015, LTIP performance targets will be based 50% on total shareholder return (TSR) and 50% on earnings per share (EPS), with each element subject to an underpin based on return on capital employed (ROCE) as described on page 100.

Element: All Employee Share Plans

Purpose and link to strategy
Provision of the SAYE to Executive Directors creates staff alignment with the Group and provides a sense of ownership.

Executive Directors may participate in such other all employee share plan as may be introduced from time to time.

Operation
Tax qualifying monthly savings scheme facilitating the purchase of shares at a discount.

Any other all employee share plan would be operated for Executive Directors in accordance with its rules and on the same basis as for other employees.

Maximum opportunity
The limit on participation under the SAYE scheme will be that set in accordance with the applicable tax legislation from time to time. The contribution limit is £500 per month as at 30 June 2014.

The limit on participation under any other all employee share plan would be determined in accordance with the plan rules (and, where relevant, applicable legislation) and would be the same for the Executive Directors as for other relevant employees.

Performance measure
Not subject to performance conditions in line with the HMRC qualifying operation of such plans.

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

Explanation of Performance Metrics
Performance measures for the LTIP and annual bonus are selected to reflect the Company's strategy. Stretching performance targets are set each year by the Committee taking into account a number of different factors. The Committee considers that the underlying profit before tax is closely aligned to the Group's key performance metrics; together with annual personal objectives linked to the achievement of strategic milestones, we consider that this encourages sustainable growth year by year. The application of EPS and TSR targets to the LTIP aligns management's objectives with those of shareholders for the longer term.

The Committee may vary any performance measure if an event occurs which causes it to determine that it would be appropriate to do so, provided that any such variation is fair and reasonable and (in the opinion of the Committee) the change would not make the measure less demanding. If the Committee were to make such a variation, an explanation would be given in the next Remuneration Report.

Policy Table for Non-Executive Directors:

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

Directors' Remuneration Report continued

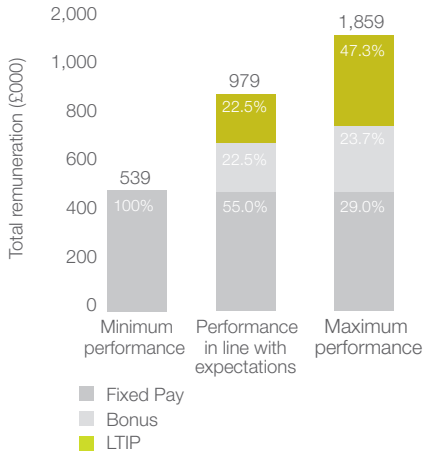
Policy for the Remuneration of Employees More Generally:

The Group aims to provide a remuneration package that is competitive in an employee's country of employment and which is appropriate to promote the long term success of the Company. The Company intends to apply this policy fairly and consistently and does not intend to pay more than is necessary to attract and motivate staff. In respect of the Executive Directors, a greater proportion of the Directors' remuneration package is 'at risk' and determined by reference to performance conditions. The Company's SAYE scheme encourages share ownership by qualifying employees and enables them to share in value created for shareholders.

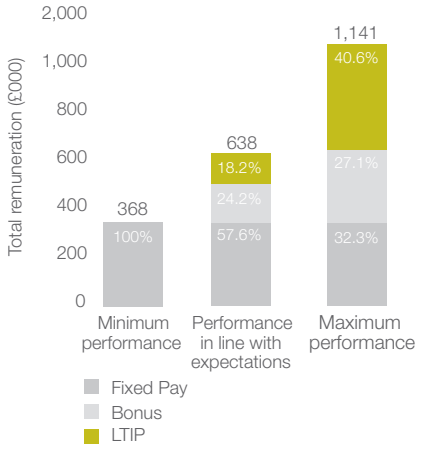
Illustrations of Application of Remuneration Policy:

The following charts provide an illustration, for each of the Executive Directors, of the application for the 2015 financial year of the remuneration policy. The charts show the split of remuneration between fixed pay (i.e. base salary, benefits and employer pension contributions), annual bonus and long term incentive pay on the basis of minimum remuneration, remuneration receivable for performance in line with Dechra's expectations and maximum remuneration (not allowing for any share price appreciation).

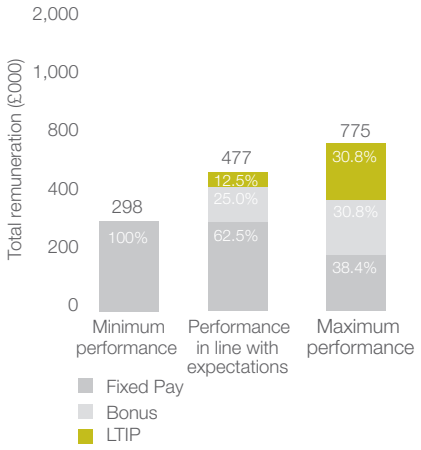
Ian Page



Anne-Francoise Nesmes



Tony Griffin



In illustrating the potential reward, the following assumptions have been made.

	Annual bonus	LTIP	Fixed pay
Minimum performance.	No bonus.	No LTIP vesting.	Base salary (being the latest known salary as at 1 July 2014, benefits and employer pension contributions as disclosed in the single figure table on page 96 for the 2014 financial year).
Performance in line with expectations.	Bonus equal to 50% of salary is earned.	LTIP vests as to 25% of the maximum award (50% of salary for Ian Page, 37.5% of salary for Anne-Francoise Nesmes and 25% of salary for Tony Griffin).	
Maximum performance.	Bonus equal to 100% of salary is earned.	LTIP vests in full (200% of salary for Ian Page, 150% of salary for Anne-Francoise Nesmes and 100% of salary for Tony Griffin).	

Recruitment Remuneration Policy

When hiring a new Executive Director, the Committee will typically align the remuneration package with the above Policy.

When determining appropriate remuneration arrangements, the Committee may include other elements of pay which it considers are appropriate. However, this discretion is capped and is subject to the principles set out on page 87 and the limits referred to below.

- Base salary will be set at a level appropriate to the role and the experience of the Director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate.
- Pension and benefits will only be provided in line with the above Policy.
- The Committee will not offer non-performance related incentive payments (for example a 'guaranteed sign-on bonus').

- Other elements may be included in the following circumstances:
  - an interim appointment being made to fill an Executive Director role on a short term basis;
  - if exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short term basis;
  - if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long term incentive award for that year as there would not be sufficient time to assess performance. Subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis;
  - if the Director will be required to relocate in order to take up the position, it is the Company's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Committee.
- The Committee may also alter the performance measures, performance period and vesting period of the annual bonus or LTIP, subject to the rules of the LTIP, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the next Directors' Remuneration Report.
- The maximum level of variable remuneration which may be granted (excluding 'buyout' awards as referred to below) is 300% of salary.

The Committee may make payments or awards in respect of hiring an employee to 'buyout' remuneration arrangements forfeited on leaving a previous employer. In doing so, the Committee will take account of relevant factors including any performance conditions attached to the forfeited arrangements and the time over which they would have vested. The Committee will generally seek to structure buyout awards or payments on a comparable basis to the remuneration arrangements forfeited. Any such payments or awards are excluded from the maximum level of variable remuneration referred to above. 'Buyout' awards will ordinarily be granted on the basis that they are subject to forfeiture or 'clawback' in the event of departure within 12 months of joining Dechra, although the Committee will retain discretion not to apply forfeiture or clawback in appropriate circumstances.

Any share awards referred to in this section will be granted as far as possible under Dechra's existing share plans. If necessary and subject to the limits referred to above, recruitment awards may be granted outside of these plans as permitted under the Listing Rules which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of an Executive Director.

Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue in accordance with their terms.

Fees payable to a newly appointed Chairman or Non-Executive Director will be in line with the policy in place at the time of appointment.

Policy on Service Contracts:

Details of the Executive Directors' service contracts/Non-Executive Directors' letters of appointment are set out below.

		Notice Period	
Name	**Commencement date of current service contract**	**Director**	**Company**
Mike Redmond	25 April 2001	3 months	3 months
Ian Page	1 September 2008	6 months	12 months
Anne-Francoise Nesmes	22 April 2013	6 months	12 months
Tony Griffin	1 November 2012	6 months	12 months
Ishbel Macpherson	1 February 2013	3 months	3 months
Dr Chris Richards	1 December 2010	3 months	3 months
Julian Heslop	1 January 2013	3 months	3 months

There are no expiry dates applicable to either Executive or Non-Executive Directors' service contracts. The Non-Executive Directors are entitled to compensation on termination of their appointment confined to three months' remuneration.

While the Committee's policy is for the service contract of any newly appointed Executive Director to have a notice period of not more than 12 months, the Committee retains discretion to set an initial notice period of up to 24 months, reducing to 12 months over the initial 12 months of employment.

Directors' Remuneration Report continued

Policy on Payment for Loss of Office:
Individual Directors' eligibility for the various elements of compensation is set out below:

Provision	Treatment upon loss of office
Base Salary/Fees	Base salary/fees and benefits based on the duration of the notice period receivable from the Company.
Payments in Lieu of Notice	The Company has discretion to make a payment in lieu of notice at any time after notice has been given by either the Company or the Director. Such a payment would consist of basic salary for the unexpired period of notice and may also include benefits for that period.
Annual Bonus	This will be reviewed on an individual basis and the decision whether or not to award a bonus in full or in part will be dependent upon a number of factors including the circumstances of their departure and their contribution to the business during the bonus period in question. Any bonus payment would typically be pro-rated for time in service to termination and paid at the usual time (although the Committee retains discretion to pay the bonus earlier in appropriate circumstances).
LTIP	If an Executive Director ceases employment with the Group for any reason within the first 12 months of the performance period relating to an award under the LTIP, that award will lapse. If an Executive Director ceases employment with the Group before the end of the performance period relating to an award under the LTIP as a result of retirement, ill-health, injury, disability, redundancy, death, transfer of his employing entity out of the Group or any other reason, at the discretion of the Committee, the award will usually vest on the normal vesting date, although the Committee has discretion to permit the award to vest on cessation. In either case, the award will vest to the extent determined by reference to the relevant performance conditions and as reduced to reflect the period of time from the start of the performance period to the date of cessation. If an Executive Director ceases employment for any reason after the end of the performance period relating to an award under the LTIP, that award will continue to subsist in accordance with the rules of the LTIP.
Pension	This would be taken into account as part of the payment referred to in the base salary section.
Recruitment Awards	Anne-Francoise Nesmes was granted two recruitment awards, as referred to in the Company's Directors' Remuneration Report for the year ended 30 June 2013. The first of those Awards vested on 30 June 2014 and may be exercised until 30 December 2014. If Anne-Francoise Nesmes ceases employment with the Group before exercise as a result of ill-health, injury, disability, redundancy, death, transfer of her employing entity out of the Group or any other reason, at the discretion of the Committee, the award will continue to subsist subject to its terms. The second Award is due to vest, subject to satisfaction of performance conditions, on 30 June 2015. That Award is subject to leaver provisions which are the same as those applying to the LTIP.
Other Payments	In appropriate circumstances, payments may also be made in respect of accrued holiday pay, and outplacement and legal fees. Options under the Company's SAYE scheme will vest if a participant ceases employment with the Group due to death, injury, disability, redundancy, retirement, the transfer of his employing entity out of the Group or by reason of dismissal in circumstances constituting wrongful or unfair dismissal where such dismissal occurs more than three years after the grant of the option.
Change of Control	In the event of a change of control, unvested awards under the LTIP will vest to the extent determined by the Committee taking into account the relevant performance conditions and, unless the Committee determines otherwise, the extent of vesting so determined shall be reduced to reflect the proportion of the relevant performance period that has elapsed. In the event of a change of control, the Recruitment Awards referred to above will vest in full. Options under the SAYE scheme will vest on a change of control.

Where appropriate the Directors would have regard to the departing Director's duty to mitigate loss, except in the event of dismissal following a change of control of the Company. Other than as described above, there are no express provisions within the Directors' service contracts for the payment of compensation or liquidated damages on termination of employment.

Where a 'buyout' or other award is made outside Dechra's existing share plan, as permitted under the Listing Rules as referred to above, the leaver provisions would be determined at the time of the award.

The Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.

Consideration of Employment Conditions Elsewhere in the Group

The Committee does not formally consult with employees as part of its process when determining Executive Director pay. However, as noted in the Policy table on page 87, the level of salary increases of employees within the wider Group is considered when setting base salary for Executive Directors. The Committee is also kept informed of general decisions made in relation to employee pay and related issues.

Consideration of Shareholders' Views

The Committee believes that ongoing dialogue with major shareholders is of key importance. During the year, the Committee consulted with major shareholders in relation to proposed changes to the LTIP performance conditions following the disposal of the Services Segment, and took account of comments received during that consultation in finalising its approach to the adjustments.

Legacy Remuneration Arrangements

The Committee reserves the right to make remuneration payments and payments for loss of office notwithstanding that they are not in line with the Policy set out above where the terms of payments were agreed: (i) before the Policy came into effect; or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes, 'payments' includes the satisfaction of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

Directors' Remuneration Report continued

2014 Annual Report on Remuneration

The following section provides detail in respect of remuneration paid to the Directors during the year in line with the Remuneration Policy detailed in the 2013 Directors' Remuneration Report (which did not require shareholder approval). KPMG LLP have audited pages 96 to 103 unless indicated otherwise.

Single Total Figure of Remuneration

The table below sets out the total remuneration for each person who has served as a Director in the period ended 30 June 2014. The table shows the remuneration for each such person in the year ended 30 June 2014 and the year ended 30 June 2013:

	Salaries & Fees £'000[1]		Benefits £'000[2]		Annual Bonus £'000[3]		Long Term Incentives £'000[4]		Pension £'000[5]		Total £'000	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Ian Page	**440**	411	**37**	33	**352**	158	**645**	541	**62**	58	**1,536**	1,201
Anne-Francoise Nesmes (appointed 22 April 2013)	**300**	94	**17**	10	**240**	21	**302**	–	**42**	7	**901**	132
Tony Griffin (appointed 1 November 2012)[6]	**232**	223	**31**	28	**186**	83	**–**	–	**28**	26	**477**	360
Ed Torr (ceased employment 31 January 2014)	**134**	230	**10**	17	**107**	83	**294**	325	**19**	32	**564**	687
Mike Redmond	**106**	86	**–**	–	**–**	–	**–**	–	**–**	–	**106**	86
Ishbel Macpherson (appointed 1 February 2013)	**39**	16	**–**	–	**–**	–	**–**	–	**–**	–	**39**	16
Dr Chris Richards	**42**	42	**–**	–	**–**	–	**–**	–	**–**	–	**42**	42
Julian Heslop (appointed 1 January 2013)	**41**	19	**–**	–	**–**	–	**–**	–	**–**	–	**41**	19
Neil Warner (retired 17 October 2013)	**13**	42	**–**	–	**–**	–	**–**	–	**–**	–	**13**	42
Total	**1,347**	1,163	**95**	88	**885**	345	**1,241**	866	**151**	123	**3,719**	2,585

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

1. Salaries & Fees – this is the cash paid or received in respect of the relevant period.
2. Benefits – this represents the taxable value of all benefits paid or received in respect of the relevant period. The benefits provided include the use of a fully expensed car (where taken), medical cover and life assurance. SAYE options granted in the year have also been included in the benefits column. These have been valued using the fair value as per note 24 to the Group's financial statements. Tony Griffin's benefits from 2013 have increased by £21,000 due to the addition of a company car benefit.
3. Annual bonus – this is the amount of cash bonus paid in respect of the relevant period.
4. Long Term Incentives – this is the value of any long term incentives vesting where the performance period ended in the relevant period.
5. Pension – this is the cash value of the employer contribution to the Group stakeholder personal pension scheme or, in the case of Tony Griffin, defined contribution pension plan plus the value of any salary supplement paid.
6. Tony Griffin's remuneration is paid in Euros but reported in Sterling for the purpose of this table. The exchange rate used for this purpose was 1.24 for 2013 and 1.20 for 2014. The difference in the 2013 and 2014 remuneration is purely in relation to exchange rates.

Additional Disclosures in Respect of the Single Figure Table:
Salaries & Fees

As disclosed in the single figure table above, no increase was made to Executive Directors' salaries in the year ended 30 June 2014. However, Ian Page's base salary was increased by 15% to £440,000 part way through the 2013 financial year. This increase was made following a comprehensive review of Ian Page's remuneration package and after consultation with Dechra's major shareholders. This increase reflects:

- his achievements since his appointment as Chief Executive Officer in 2001;
- his delivery of significant and sustained increase in shareholder value;
- his successful integration of a number of significant strategic acquisitions; and
- the market positioning of his salary against companies of a similar size and complexity.

Further detail in relation to this matter is detailed in last year's Directors' Remuneration Report.

The Committee's approach to Executive Directors' salaries for the year ending 30 June 2015 is summarised on page 104.

The Chairman and other Non-Executive Directors are paid a fee for their role and additional fees for chairmanship of the Remuneration Committee and Audit Committee. As disclosed in the Directors' Remuneration Report for the year ended 30 June 2014, the Chairman's fee was increased in the year ended 30 June 2014 to a level more commensurate with his experience, performance and overall contribution to the business. No other Non-Executive Director received an increase in fees for the year ended 30 June 2014. The Non-Executive Directors' fees for the year ended 30 June 2014 were determined on the following basis:

Office	2014 Fee £'000
Chairman	106
Non-Executive Director	39
Remuneration Committee Chairmanship additional fee	3
Audit Committee Chairmanship additional fee	3

The approach to the Chairman and Non-Executive Directors' fees for the year ending 30 June 2015 is summarised on page 104.

Annual Bonus

The Company operates an annual cash incentive scheme for the Executive Directors. Annual bonuses were awarded by the Committee in respect of the 2014 financial year having regard to the performance of the Group and personal performance objectives for the year.

The amount achieved for the year ended 30 June 2014 against targets for the 2014 financial year is as follows:

2014 Financial Year Targets	Amount Achieved for the Year Ended 30 June 2014
Underlying profit before tax performance: 10% of salary payable upon the achievement of 95% of Group profit target rising to 90% of salary payable upon the achievement of 110% of Group profit target.	The underlying profit before tax target was £38.5 million. Actual underlying profit before tax was £39.9 million reflecting 105% of the profit target when translated at constant exchange rate resulting in a payment worth 70% of salary.
Personal objectives: up to an additional 10% of salary was payable to Executive Directors upon the achievement of personal objectives.*	Actual performance resulted in payment worth 10% of salary. The objectives are based on key aspects of delivering the Group's strategy.*
Total Annual Bonus Earned for the Year Ended 30 June 2014	**80% of salary**

* The Committee considers that the actual objectives are commercially sensitive as they give our competitors insight into our business plans and therefore they are not detailed in this report.

The Committee's approach to Executive Directors' annual bonus opportunities for the year ending 30 June 2015 is summarised on page 104.

Directors' Remuneration Report continued

Pension:

All Executive Directors (excluding Tony Griffin) were members of the Dechra Pharmaceuticals PLC Group Stakeholder personal pension scheme throughout the year. Tony Griffin is a member of a defined pension plan in the Netherlands. Contributions made by Dechra Pharmaceuticals PLC on behalf of the Executive Directors during the year equated to no more than 14% of pensionable salary.

The annual allowance for tax relief on pension savings for individuals reduced from £50,000 to £40,000 from 6 April 2014. Since this became effective, Anne-Francoise Nesmes has elected to receive a salary supplement in lieu of the employer contribution over and above the £40,000 limit. Ian Page has received a salary supplement for the entire period under review. Both have committed to invest this supplement appropriately.

Tony Griffin is a member of the Basispensioen, a defined benefit scheme established in the Netherlands. His normal retirement age is 67. The table below sets out the arrangements for Tony Griffin for the period under review:

Accrued benefit at 1 July 2013	€8,861
Increase in accrued benefit excluding inflation allowance	€9,520
Increase in accrued benefit including inflation allowance	€9,704
Transfer value of benefit accrued during the period less member contributions	€26,000
Transfer value at 1 July 2013	€127,000
Transfer value at 30 June 2014	€154,000
Increase in transfer value over the period after member contribution	€27,000

Chief Executive Officer Remuneration for Five Previous Years:

Year ended	Total single figure remuneration £'000	Annual bonus payout (% of maximum opportunity)	LTIP vesting (% of maximum number of shares)
30 June 2014	1,536	80	100%
30 June 2013	1,201	36	100%
30 June 2012	682	60	0%
30 June 2011	984	60	71.1%
30 June 2010	768	44	100%

Percentage Change in Chief Executive Officer Remuneration:

The table below sets out in relation to salary, taxable benefits and annual bonus the percentage change in pay for Ian Page and the average percentage change for all UK based employees comparing pay in respect of the year ended 30 June 2013 and the year ended 30 June 2014. For these purposes, UK employees were chosen as a comparator group reflecting that Ian Page is UK based and the number of UK employees was sufficiently large to provide a robust comparison. Employees outside the UK were not included in the comparator group since country specific differences could distort the comparison.

	Chief Executive Officer			Average per all UK based Employees		
	2014 £000	2013 £000	Increase %	**2014 £000**	2013 £000	Increase %
Salary[1]	**440**	411	7.1	**29**	29	1.5
Taxable benefits	**34**	33	3.0	**1.6**	1.5	8.7
Annual bonus	**352**	158	122.2	**2.8**	1.9	49.8

1. The difference reflects an increase in Ian Page's salary as of 1 January 2013, details of which can be found on page 97. Ian Page elected to waive his salary increase for the 2014 and 2015 financial years.

Relative Importance of Spend on Pay

The following table sets out the percentage change in distributions to shareholders by way of dividend and share buyback and total remuneration paid to or receivable by all Group employees comparing the year ended 30 June 2013 and the year ended 30 June 2014.

	Year ended 30 June 2013 £'000	**Year ended 30 June 2014 £'000**	% change
Distributions to shareholders by way of dividend and share buyback	12,199	**13,500**	10.7
Overall expenditure on pay — continuing operations	39,834	**41,625**	4.50
Overall expenditure on pay — discontinued operations	11,118	**1,460**[1]	(86.9)

1. The Services Segment was divested during August 2013. The 2014 pay therefore includes 1.5 months of Services compared to 12 months in 2013.

Long Term Incentive Arrangements and Share Schemes: LTIP Awards Vesting in Respect of the Year Ended 30 June 2014

Ian Page and Ed Torr were granted LTIP Awards on 7 September 2011, the performance targets for which are as follows:

1. an 'underpin' condition based on Group underlying diluted earnings per share performance: no awards would vest if the Company's underlying diluted earnings per share has not grown by at least RPI + 3% per annum over the performance period;
2. the Company's TSR performance: assuming that the underpin is achieved, vesting of the awards was determined by the Company's TSR performance compared to the constituents of the FTSE Small Cap Index over the period of three financial years ended on 30 June 2014. Vesting is on the following basis:

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

Ed Torr ceased to be employed by the Company part way through the performance period and, in line with the LTIP Scheme rules, was treated as a good leaver in respect of this Award. In accordance with the terms of the Award, the TSR performance was measured up to the date of cessation of employment, 31 January 2014. The Company's TSR performance was 67% compared with a 65% TSR for live companies in the top quartile comparator group. The EPS underpin was measured on the basis of whether, in the opinion of the Committee, the EPS underpin was on course to be satisfied at the end of the original Performance Period. The Committee, after taking advice in relation to this element, considered that the EPS underpin was satisfied and that the Award would have vested as to 100%. A time pro-rating reduction was then applied to reflect Ed Torr's reduced length of service in the performance period, resulting in 86.1% of the shares vesting. In the single figure table on page 96, the value attributable to this Award is calculated by multiplying the number of shares in respect of which the Award vested (47,946) by £7.015 (being the mid market quotation of a share on 31 January 2014).

Ian Page's Award vested on 7 September 2014. In respect of the performance conditions, the Company's TSR performance was over 68% compared with a 65% TSR for all companies in the top quartile of the comparator group. In addition, the Group's underlying diluted EPS increased by 19.25% over the performance period. As a result Ian Page's Award vested in full. In the single figure table on page 96, the value attributable to this Award is calculated by multiplying the number of shares in respect of which the Award vested (92,811) by £6.95 (being the average market value of a share over the last quarter of the Company's financial period ending on 30 June 2014).

The aggregate gain made by the Executive Directors on share options exercised during 2014 was £883,249 (2013: £5,187). In addition Ed Torr exercised his outstanding SAYE options and LTIP option granted on 7 September 2011. The gain made on these share option exercises was £338,755.

Directors' Remuneration Report continued

Recruitment Award for Anne-Francoise Nesmes Vesting in Respect of the Year Ended 30 June 2014

As disclosed in the Company's Directors' Remuneration Report for the year ended 30 June 2013, on her appointment the Committee agreed to award Anne-Francoise Nesmes two LTIP Awards, each to the value of 100% of her base salary.

The vesting of the first of those Awards was subject to a performance condition based on the Chief Executive Officer's assessment of her performance in the period from her date of joining the Company (22 April 2013) until 30 June 2014. Based on the Chief Executive Officer's assessment of her performance over this period, the Award vested as to 100% on 30 June 2014. In the single figure table on page 96 the value attributable to this Award is calculated by multiplying the number of shares in respect of which the Award vested (41,739) by £7.235 (being the mid market value of a share on 30 June 2014).

The details of the LTIP Awards granted during the year ended 30 June 2014 are set out below. The Committee's approach to Executive Directors' LTIP Awards for the year ending 30 June 2015 is summarised on page 104.

LTIP Awards Made During the Year Ended 30 June 2014

Awards were granted to the Executive Directors on 27 November 2013, on the following basis:

	Type of award	Maximum opportunity	Number of shares	Face value at grant[1]	% of award vesting at threshold	Performance period
Ian Page	Nil cost option under the LTIP	200% of salary	129,221	£879,995	25%	1 July 2013 – 30 June 2016
Anne-Francoise Nesmes	Nil cost option under the LTIP	150% of salary	66,079	£449,998	25%	1 July 2013 – 30 June 2016
Tony Griffin	Nil cost option under the LTIP	100% of salary	34,129	£232,418	25%	1 July 2013 – 30 June 2016
Ed Torr[2]	Nil cost option under the LTIP	100% of salary	33,706	£229,538	25%	1 July 2013 – 30 June 2016

1. For these purposes, the face value of the Award is calculated by multiplying the number of shares by £6.81 (being the average share price used to determine the number of shares comprised in the Awards).
2. Lapsed on Ed Torr's cessation of employment on 31 January 2014.

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

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

50% of each Award is subject to a performance condition based on the growth in the Company's EPS over the performance period as follows:

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

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

Recruitment Award for Anne-Francoise Nesmes

As disclosed in the Company's Directors' Remuneration Report for the year ended 30 June 2013, on appointment the Committee agreed to award Anne-Francoise Nesmes two LTIP Awards, each to the value of 100% of her base salary. These Awards were granted on 27 September 2013 as follows:

	Type of award	Maximum opportunity	Number of shares	Face value at grant[2]	% of award vesting at threshold	Performance period
Recruitment Award 1[1]	Nil cost option	100% of salary	41,739	£296,556	100%	22 April 2013 – 30 June 2014
Recruitment Award 2[2]	Nil cost option	100% of salary	41,739	£296,556	25%	1 July 2012 – 30 June 2015

1. This Award vested on 30 June 2014 as disclosed on page 100.
2. For these purposes, the face value of the award is calculated by multiplying the number of shares by £7.105 (being the mid market quotation of a Dechra share on the date of grant).

Recruitment Award 1 was subject to a performance condition based on the Chief Executive Officer's assessment of Anne-Francoise Nesmes' performance in the period from her date of joining the Company (22 April 2013) until 30 June 2014. Upon vesting, the Award will be subject to claw back should Anne-Francoise Nesmes not remain in employment with the Company until 30 June 2015. This Award vested on 30 June 2014 (details of which have been provided earlier in this report).

Recruitment Award 2 is scheduled to vest on 30 June 2015 and is subject to performance conditions which are the same as those applying to the LTIP Awards granted on 5 March 2013:

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

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

50% of the Award is subject to a performance condition based on the growth in the Company's EPS over the performance period as follows:

EPS	Vesting Percentage
<33p	0%
33p	25% of the EPS portion will vest
Between 33p and 40p	Pro-rata vesting between 25% and 100%
40p	100% of the EPS portion will vest

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

As reported in the Directors' Remuneration Report for the year ended 30 June 2013 the performance conditions attaching to the LTIP Award made on 5 March 2013 were rebased following the disposal of the Services Segment in August 2013. A consultation with major shareholders was undertaken at the beginning of November 2013 following which the above performance conditions were rebased as detailed above.

Directors' Remuneration Report continued

SAYE Options Granted in the Year

The following Directors were granted SAYE options on 7 April 2014:

	Number of options	Option price	Exercise date
Ian Page	1,630	£5.52	May 2017
Anne-Francoise Nesmes	1,630	£5.52	May 2017

Payments to Past Directors (Unaudited):

There were no payments made to past Directors during the period.

Payments for Loss of Office (Unaudited):

A payment for loss of office was made to Ed Torr during the financial year and equated to:

- 12 months of his salary at £229,539;
- pro-rated bonus for the financial year of £107,118;
- pension of £32,158; and
- 12 months' private medical cover to Ed Torr and his family and the provision of a fully insured car for 12 months.

In addition, Ed Torr was treated as a 'good leaver' for the purposes of his SAYE options and LTIP option granted on 7 September 2011 which vested on cessation of employment. Further details in relation to the LTIP can be found on page 99.

No other compensation payments were made to Executive or Non-Executive Directors during the year.

Shareholding Guidelines and Statement of Directors' Shareholdings and Interests:

Executive Directors

By the third anniversary of their appointment to the Board, Executive Directors are required to have acquired and retained a holding of Dechra shares equivalent to the value of at least 100% of their base salary. The holdings of the Executive Directors and their families as at 30 June 2014 are as follows.

Name	Ordinary shares No.	Ordinary shares £'000*	% of salary
Ian Page	906,643	6,560	1,491%
Anne-Francoise Nesmes (appointed 22 April 2013)	—	N/A	N/A
Tony Griffin (appointed 1 November 2012)	20,077	145	63%

* Calculated using the share price as at 30 June 2014.

The above numbers represent Executive Directors' total interest in shares in the Company as at 30 June 2014, other than Anne-Francoise Nesmes' whose first LTIP Award vested on 30 June 2014. However, she is prohibited from exercising the Award due to the imposition of a close period, scheduled to end on 8 September 2014. On exercise she will hold 41,739 shares. The value of these shares at 30 June 2014 equated to 101% of her salary. However, this does not take into account any potential sale of shares to cover the tax liability arising on exercise.

Non-Executive Directors

Name	Ordinary shares No.	Ordinary shares £'000*	% of base fee
Mike Redmond	73,417	531	501%
Ishbel Macpherson	5,848	42	110%
Dr Chris Richards	7,400	53	138%
Julian Heslop	10,000	72	186%

* Calculated using the share price as at 30 June 2014.

The above numbers represent the Non-Executive Directors' total interest in shares in the Company as at 30 June 2014. There have been no changes in the holdings of the Directors between 30 June and 8 September 2014.

Executive Directors' Interests under Share Schemes

Long Term Incentive Plan

Awards held under the Long Term Incentive Plan by each person who was a Director at 30 June 2014 are as follows:

	Award date	Number of shares at 30 June 2013	Granted during the year	Lapsed during the year	Exercised during the year	Number of shares at 30 June 2014	Status	Performance period
Ian Page	22 December 2010	78,656	—	—	(78,656)	—	Vested	2010-2013
	7 September 2011	92,811	—	—	—	92,811	Vested	2011-2014
	5 March 2013	94,420		—	—	94,420	Unvested	2012-2015
	27 November 2013	—	129,221			129,221	Unvested	2013-2016
Anne-Francoise Nesmes	27 September 2013[1]	—	41,739	—	—	41,739	Vested	2013-2014
	27 September 2013[1]	—	41,739	—	—	41,739	Unvested	2012-2015
	27 November 2013	—	66,079			66,079	Unvested	2013-2016
Tony Griffin	5 March 2013	34,401	—	—	—	34,401	Unvested	2012-2015
	27 November 2013	—	34,129	—	—	34,129	Unvested	2013-2016

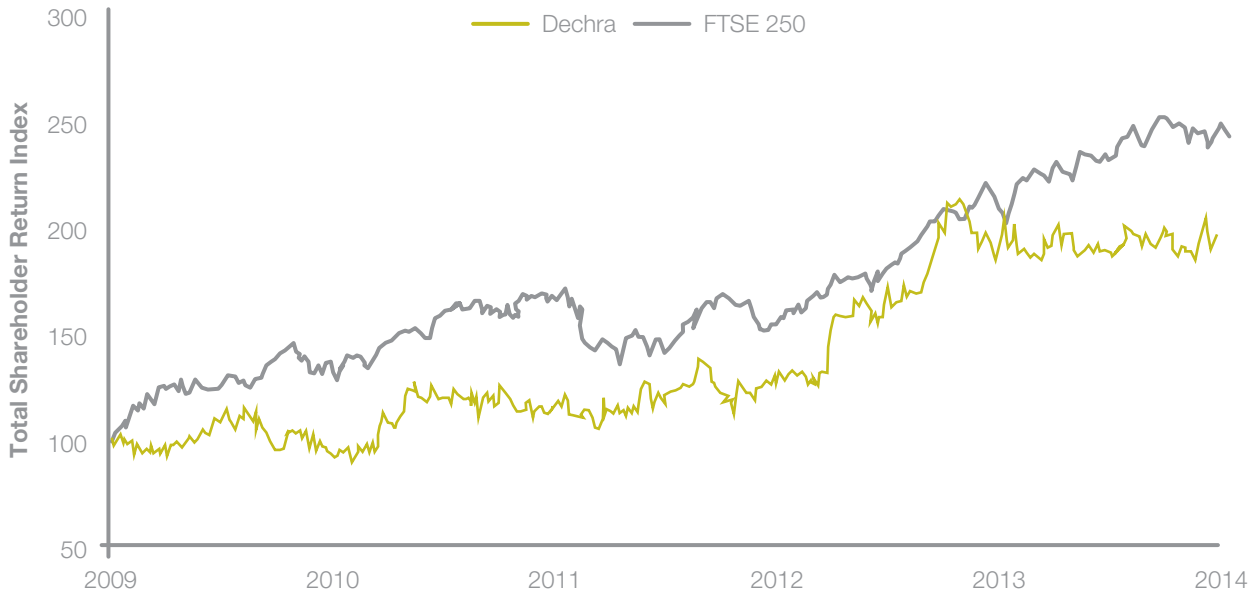
1. These Awards are the Recruitment Awards granted to Anne-Francoise Nesmes as referred to on page 100. They were granted outside the rules of the LTIP.

SAYE Scheme

Options held under the SAYE Scheme by each person who was a Director at 30 June 2014 are shown on page 102.

Total Shareholder Return (TSR) Graph

The graph below shows the TSR performance of the Company over the past five financial years compared with the TSR over the same period for the FTSE 250 Total Return Index. Throughout the financial year ended 30 June 2014 the Company has been a constituent member of the FTSE 250; for this reason it is considered that the TSR performance of the FTSE 250 Index be represented in this report.



Directors' Remuneration Report continued

Implementation of the Directors' Remuneration Policy in the Year Ending 30 June 2015:

The Directors' Remuneration Policy outlined on pages 87 to 95 will be implemented in the year ending 30 June 2015 in line with the way in which it has been implemented in the year ended 30 June 2014.

Salary and Fees

Excluding Ian Page, Executive Directors' base salaries have been increased by 3% with effect from 1 July 2014. This is broadly in line with the average increase awarded to employees in the wider Group. Ian Page has elected to waive a review of his salary for the year ended 30 June 2015.

In respect of the Chairman, following the benchmarking exercise that was undertaken during the 2013 financial year, it was agreed to award him an increase over a two year period. The second increase will take effect from 1 July 2014, taking his fee to £126,000 per annum (an increase of 18%). It is considered that this now brings the Chairman's fee to a level more commensurate with his experience, performance and overall contribution to the business together with that paid for chairmen of companies of a similar size and complexity to Dechra.

In terms of the remaining Non-Executive Directors, it has been agreed to increase their base fee to £40,000 per annum (an increase of 2.56%). A review was also undertaken in respect of the fees paid for the Chairmen of the Remuneration and Audit Committees. The additional fee was increased from £3,000 to £5,000 per annum. It is considered that Dechra remains in the lower quartile in respect of such payments and it has been agreed to increase these additional fees over the medium term to bring them in line with the median of FTSE 250 companies. In addition, it was agreed that a fee should be introduced for the Senior Independent Director role, at the rate of £3,000 per annum.

Annual Bonus

No changes have been made to the bonus structure. Executive Directors, therefore, will have a bonus opportunity of 100% of salary for the year ending 30 June 2015, on the same basis as for the year ended 30 June 2014. Details of the bonus structure can be found on page 97.

LTIP

The Committee proposes that LTIP awards for the year ended 30 June 2014 will be made at the level of 200% of salary for Ian Page, 150% of salary for Anne-Francoise Nesmes and 100% of salary for other Executive Directors. The performance measures remain as per the grant of LTIP Awards made on 27 November 2013, details of which can be found on page 100.

Consideration by Directors of Matters Relating to Directors' Remuneration:

Governance

The Board has overall responsibility for the Group's remuneration policy and the setting of the Non-Executive Directors' fees. The task of determining and monitoring the remuneration packages of the Executive Directors and agreeing the Chairman's fee level has been delegated to the Committee.

Membership

Details of each member's attendance at the Committee meetings is detailed on page 69.

The Chief Executive Officer attended all meetings held during the financial year in order to assist on matters concerning remuneration of other senior executives within the Group. However, he was not present during the part of the meetings where his own remuneration was discussed. The Group HR Director, Katy Clough, has attended all meetings since her appointment.

Responsibilities

The Committee has defined terms of reference, which are approved by the Board. These are reviewed on an annual basis to ensure that they continue to adhere to best practice. During the 2014 financial year this review took place at the June meeting. Copies can be obtained via the Company website at www.dechra.com. The Committee Chairman and the Company Secretary are available to shareholders to discuss the remuneration policy.

An overview of the Committee's terms of reference is provided on page 72.

Policy on External Appointments

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

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

Advisers

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

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

Deloitte is retained to provide independent advice to the Committee as required. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK. Deloitte's fees for providing remuneration advice to the Committee were £24,360 for the year ended 30 June 2014. The Committee assesses from time to time whether this appointment remains appropriate or should be put out to tender and takes into account the Remuneration Consultants Group Code of Conduct when considering this. Deloitte was appointed by the Committee and has provided share scheme advice and general remuneration advice to the Company. Details of additional services which Deloitte provide to Dechra are detailed on page 83.

Statement of Voting at Last Annual General Meeting

The Company remains committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. The following table sets out actual voting in respect of the resolution to approve the Directors' Remuneration Report at the Company's Annual General Meeting on 17 October 2013:

Resolution	Votes for	% of vote	Votes against	% of vote	Votes withheld
Approve Remuneration Report	64,850,115	98.83	769,256	1.17	4,092,105

This report was approved by the Board on 8 September 2014 and signed on its behalf by:

Dr Christopher Richards
Remuneration Committee Chairman

Social, Ethical and Environmental Responsibilities

A responsible approach to our stakeholders and the wider community is considered by the Board to be important to the business. The conduct of the business towards social, environmental, ethical and health and safety issues is recognised to have an impact on our reputation and therefore the implementation and improvement of policies and systems is ongoing.

Tony Griffin is the nominated Director responsible for health, safety and environmental matters. However, the Board takes ultimate responsibility for Corporate Social Responsibility and continues to be committed to developing and implementing appropriate policies that create and maintain long term value for all stakeholders. Sound business ethics help to minimise risk, ensure legal compliance and enhance Company efficiency.

Social Responsibilities

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

The Group operates a Donations Policy, which allocates up to £10,000 a year to be split between animal welfare charities, environmental charities and employee nominated charities. All employees within the Group are entitled to nominate a charity or a non-commercial organisation. During the financial year, £2,000 was donated to each of the chosen charities below:

Type of Charity	Charity	Description
Animal	Hillbrae Rescue Kennels	A family run concern based in Telford, Shropshire providing boarding kennels which cater for dogs, cats, small pets and birds. They also have rescue kennels where stray and abandoned dogs from Telford and Newport stay while waiting for their owners to reclaim them or until new homes are found.
	Roleystone Horse and Pony Sanctuary	A charity based near Dechra Pharmaceuticals Manufacturing Skipton that helps horses and ponies in need.
Employee	St George's Day Festival 2014	In support of the ABF The Soldiers' Charity, a charity which assists in the recovery and rehabilitation of injured war heroes.
	Pendleside Hospice	A hospice for terminally ill patients to ease the pressure on families and make their final weeks/months more comfortable for both the patient and their families.
	Manorlands Hospice, Oxenhope	Specialist palliative care providers in medical, nursing, and psychological care and treatment of people living with or affected by a serious or terminal illness. They focus on helping to resolve these problems whilst supporting family, carers and close friends.

Daniel Smith from Severn Hospice receives a cheque for £932 from Bob Parmenter ex DVP UK Country Manager.

Julie Sessford, a DPM employee, presenting a cheque to Roleystone Horse and Pony Sanctuary.

In addition to the annual Group donation, each business unit has discretion to allocate funds to local community groups, employee nominated charities and/or animal welfare charities. Below is a selection of what has taken place during the 2014 financial year.

Animal Welfare

- As in previous years, many of our businesses have donated obsolete and/or short dated stock, damaged products and consumables to various charities, with the proviso that such stock is not provided to charities where the donation-in-kind could be sold to third parties. Dechra Veterinary Products UK (DVP UK) continued to provide assistance to a charity called Help the Street Cats of Morocco which it has been involved with since 2006 providing supplies in 2014 of *Alvegesic, Atipam* and *Sedator*.

Environment

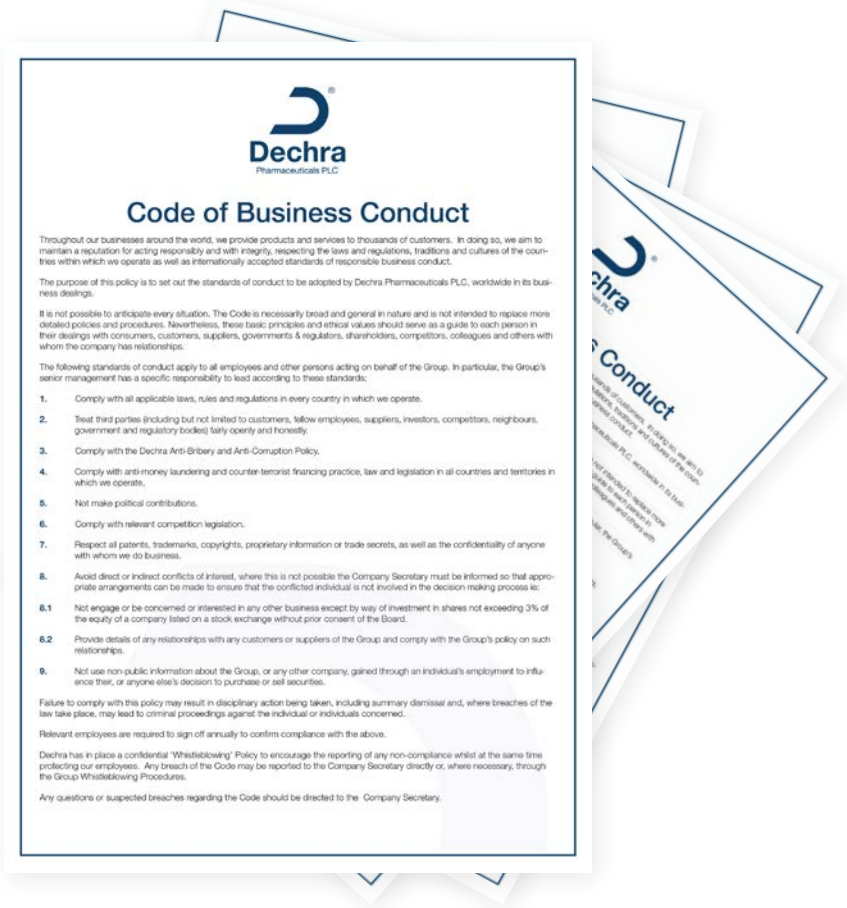
- Dechra Veterinary Products EU (DVP EU) has continued to donate DKK0.02 for every kilowatt per hour used for the period 2011 to 2015 to Energreen ApS for the construction of new green energy production facilities within Denmark.

Other

- Each year DVP EU nominates a Danish charity. This year they donated DKK2,200 to the Danish Cancer Foundation. Furthermore, as reported in the previous Annual Report, DVP EU has continued its sponsorship of three children through SOS Children's Villages.
- DVP UK employees celebrated the Best of Shropshire at a social event at their offices to raise money for Severn Hospice. The funds raised were matched by the Company and totalled £932.00 (see picture on previous page).

Business Ethics

The Board expects all of the Group's business activities to be conducted in accordance with the highest ethical standards and in full compliance with all applicable national and international legislation; in doing so we aim to maintain a reputation for acting responsibly and with integrity. The Board has formalised these expectations into a policy known as the Code of Business Conduct which applies throughout the Group. This code was translated and circulated around the business along with the Anti-Bribery and Anti-Corruption Policy. The Code of Business Conduct was reviewed in March 2014.


Dechra
Pharmaceuticals PLC

Code of Business Conduct

Throughout our businesses around the world, we provide products and services to thousands of customers. In doing so, we aim to maintain a reputation for acting responsibly and with integrity, respecting the laws and regulations, traditions and cultures of the countries within which we operate as well as internationally accepted standards of responsible business conduct.

The purpose of this policy is to set out the standards of conduct to be adopted by Dechra Pharmaceuticals PLC, worldwide in its business dealings.

It is not possible to anticipate every situation. The Code is necessarily broad and general in nature and is not intended to replace more detailed policies and procedures. Nevertheless, these basic principles and ethical values should serve as a guide to each person in their dealings with consumers, customers, suppliers, governments & regulators, shareholders, competitors, colleagues and others with whom the company has relationships.

The following standards of conduct apply to all employees and other persons acting on behalf of the Group. In particular, the Group's senior management has a specific responsibility to lead according to these standards:

1. Comply with all applicable laws, rules and regulations in every country in which we operate.
2. Treat third parties (including but not limited to customers, fellow employees, suppliers, investors, competitors, neighbours, government and regulatory bodies) fairly openly and honestly.
3. Comply with the Dechra Anti-Bribery and Anti-Corruption Policy.
4. Comply with anti-money laundering and counter-terrorist financing practice, law and legislation in all countries and territories in which we operate.
5. Not make political contributions.
6. Comply with relevant competition legislation.
7. Respect all patents, trademarks, copyrights, proprietary information or trade secrets, as well as the confidentiality of anyone with whom we do business.
8. Avoid direct or indirect conflicts of interest, where this is not possible the Company Secretary must be informed so that appropriate arrangements can be made to ensure that the conflicted individual is not involved in the decision making process ie:

8.1 Not engage or be concerned or interested in any other business except by way of investment in shares not exceeding 3% of the equity of a company listed on a stock exchange without prior consent of the Board.

8.2 Provide details of any relationships with any customers or suppliers of the Group and comply with the Group's policy on such relationships.

9. Not use non-public information about the Group, or any other company, gained through an individual's employment to influence their, or anyone else's decision to purchase or sell securities.

Failure to comply with this policy may result in disciplinary action being taken, including summary dismissal and, where breaches of the law take place, may lead to criminal proceedings against the individual or individuals concerned.

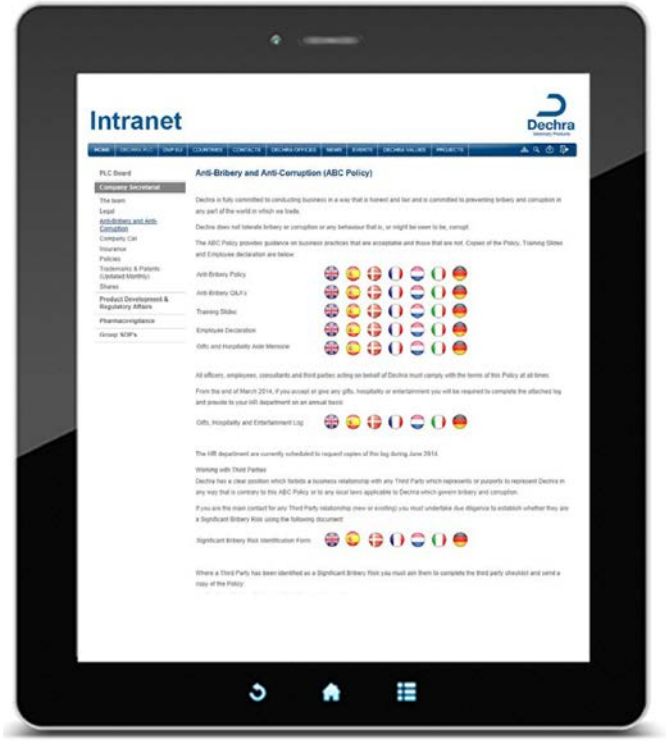
Relevant employees are required to sign off annually to confirm compliance with the above.

Dechra has in place a confidential 'Whistleblowing' Policy to encourage the reporting of any non-compliance whilst at the same time protecting our employees. Any breach of the Code may be reported to the Company Secretary directly or, where necessary, through the Group Whistleblowing Procedures.

Any questions or suspected breaches regarding the Code should be directed to the Company Secretary.

Social, Ethical and Environmental Responsibilities continued

A separate Anti-Bribery and Anti-Corruption Policy was launched during the year (previously included in the Code of Business Conduct). The policy, training documents and guidance have been translated and rolled out across all of the Dechra territories.



A whistleblowing policy is also in place whereby employees report, in confidence, any suspected wrongdoings within the business which they feel unable to discuss directly with local management. Details of the whistleblowing policy are detailed on the Company website at www.dechra.com.

The Dechra Values (Values) were launched in June 2011 across the business. Further information can be found on the Company's website at www.dechra.com. The Board fully endorses these Values and believes that they encapsulate Dechra's business ethics and set standards that all employees should strive to achieve and ultimately exceed.

All business units have implemented the Values into their operations. Both Dechra Veterinary Products UK and Dechra Pharmaceuticals Manufacturing (DPM) Skipton recognise an employee each month who has demonstrated the Values in their individual roles. Employees are nominated by their co-workers, with the chosen employee receiving an award. Every three months a winner is chosen from the previous three months' winners and receives an additional award.

Bill McGranaghan, a warehouse employee at DPM Skipton, receiving the quarterly award from David Needham.

Employees

We recognise that the success of the Group is dependent on our ability to attract, develop, motivate and retain skilled employees. For a number of years the Group has reported labour turnover as a non-financial KPI using a standard formula as follows:

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

The Group has established a target of no more than 15% Moving Annual Turnover; during the 2014 financial year we reported 16.8% (2013: 16.1% (restated to exclude the Services Segment)). This represents an increase over the previous year and is attributed to the closure of the manufacturing facility at Uldum, Denmark.

DPM Skipton is registered with 'Investors in People' and has continued in its commitment to people development through a number of apprentices embarking on the Modern Apprenticeship Scheme. Such employees are assisted in achieving National Vocational Qualifications as part of their apprenticeship, usually work-based but also involving literacy and numeracy modules.

It is the Company's policy to provide equal recruitment and other opportunities for all employees, regardless of age, sex, sexual orientation, religion, race or disability. The Group gives full consideration to applications from disabled people, where they adequately fulfil the requirements of the role. Where existing employees become disabled, it is the Group's policy whenever practicable to provide continuing employment under the Company's terms and conditions and to provide training and career development whenever appropriate.

Ensuring our teams are kept informed of key business issues is of paramount importance to the Company and we have multiple channels of communication internally to provide both formal and informal updates and feedback mechanisms. The Company also operates an internal Intranet site which is used to update employees on Group news. Dechra also actively encourages employee involvement in the Company's performance through an SAYE Sharesave Scheme. This Scheme has continually had high levels of engagement from our UK based employees.

Human Rights

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

Health and Safety Policy

The Group attaches great importance to the health and safety of its employees and the public. The management are responsible for and committed to the maintenance, monitoring and promotion of a policy of health and safety at work to ensure the care and well-being of its employees and on site visitors.

Any material health and safety issues or incidents that occur are discussed in detail at both the business unit board meetings and the PLC Board meetings. The discussions include details of the incident that took place and also details of any remedial action which has been taken in order to mitigate or prevent a recurrence of the incident. Twice a year a comprehensive health and safety report is presented at each of the business unit board meetings and subsequently reported to the PLC Board meeting the following month for discussion and review by the Directors.

Each unit within the Group has an active Health and Safety Committee comprising representatives from both management and employees. The workforce nominates employee representatives. These committees meet on a regular basis to carry out a review of risk assessments and standard operating procedures as well as investigating any concerns raised by individual employees. Each site has the requisite number of employees trained in health and safety legislation. During the financial year the Health and Safety Managers at the Bladel and Skipton Manufacturing sites have been working together to produce standardised documentation and processes as well as sharing best practices.

Skipton is now commencing the process for OHSAS 18001:2007 which is the British Standard for occupational health and safety management best practice and hopes to implement it fully within three years.

For a number of years the Group has reported Lost Time Accident Frequency Rates (LTAFR) as a non-financial key performance indicator (see page 45). The LTAFR is a calculation of all injuries that would be statutorily reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR), normalised per 100,000 hours worked. This measure provides information to help monitor and control accidents and injuries to the workforce and is widely used as a key performance indicator throughout industry. The Company reports LTAFR on the same basis as in previous years, that is over-three day incidents. Over the course of the last 12 months the number of accidents has decreased from 2 to 1 (the previous year's figure has been restated to exclude the disposed Services Segment), none of which resulted in a work-related fatality or disability.

The Transport Risk Committee assesses risks relating to the Group fleet and establishes control procedures, including regular licence checks of all individuals who are able to drive Company vehicles, investigations into all accidents and a disciplinary procedure for speeding offences. Due to the disposal of the Services Segment the size of the fleet has reduced and there is no longer a commercial fleet. This has led to the committee's terms of reference being reassessed during the year and the number of meetings reduced to two a year.

Social, Ethical and Environmental Responsibilities continued

Environmental Policy

The Group recognises the importance of good environmental controls. It is the Group's policy to comply with environmental legislation currently in place, adopt responsible environmental practices and give consideration to minimising the impact of its operations on the environment. Since the 2013 Annual Report DPM, Skipton has achieved the ISO 14001:2004 Environmental Standard Certification. This standard requires that organisations have an environmental policy and an action plan for managing their impact on the environment. Once certified, the business is committed to a programme of continuous improvement which is reviewed annually with a view to ensuring that progress is maintained.

The independent assessment of Dechra, which was conducted by the leading certification body, the British Assessment Bureau, confirmed that the site at Skipton demonstrates good environmental controls that have reduced its impact on the environment. As a result, DPM can now display the prestigious British Assessment Bureau ISO 14001 Certification Mark which demonstrates its conformity with the standard.

The award has revealed that Skipton's 'back-office' activities, which are not always evident to our customers, are environmentally friendly, from quotation to delivery of our products and services. There have been extensive benefits of obtaining the ISO 14001 standard which have included:

- Streamlining the business waste management procedures and reducing the amount of waste that goes to landfill with the resulting cost reductions to the business;
- Increasing the amount of recycling and re-use of materials, for example 15 tonnes of metal have been recycled and the business is in the process of appointing a contractor to recycle all of its non-landfill waste; and
- Reducing the organisation's overall carbon footprint.

The award also means that DPM is clearly established as one of the leaders in its field and it is anticipated that having this accrediation will improve Skipton's ability to attract more international pharmaceutical manufacturing business.

Waste

In respect of waste, the Group is a registered member of the Waste Packaging Obligations Regulations compliance scheme. The general waste is sorted for collection by third party waste management companies. DPM Skipton monitors its waste management as part of the site's commitment to improve its recycling rates and direct waste into its correct waste streams with a view to ensuring compliance with regulatory requirement and to protect the environment. The site has set a target to increase its recycling rate by 10%, reducing waste to landfill by end of the 2015 financial year and the introduction of a further recycling project. This facility continues to comply with, and exceed, effluent discharge standards into local water supplies, which is subject to random monitoring by Yorkshire Water Authority. Standard operating procedures are in place to provide that all contaminated waste is disposed of under strict controls. Furthermore, all exhaust air is fully filtered from the manufacturing unit before discharge into the environment. DVP EU is legally obliged to submit an environmental impact report to the Danish Ministry of Environment on an annual basis.

Greenhouse Gas Emissions

This is the first year that Dechra has collated and reported on its Greenhouse Gas Emissions.

Methodology

In order to determine our emissions, we have used the GHG Protocol Corporate Accounting and Reporting Standard and have reported on Greenhouse Gas Emissions arising from those sources over which we have operational control. The disclosures below encompass:

- Scope 1: includes emissions from combustion of fuel and operation of facilities (excluding combustion of fuel from Company cars);
- Scope 2: includes emissions from purchased electricity, heat, steam and cooling; and
- Vehicle emissions.

The UK Government's Conversion Factors for Company Reporting 2013 for the period 1 July 2013 to 31 May 2014 and the UK Government's Conversion Factors for Company Reporting 2014 for June, have been used to convert Dechra's usage into a carbon dioxide equivalent, and Dechra has selected 'Tonnes of CO_2e per total £m sales revenue' as the intensity ratio as this is a relevant indicator of the Group's growth.

As this is the first year Dechra has reported on Greenhouse Gas Emissions there is no prior year's data to compare. The figures (excluding the Services Segment) provided below will be used as the baseline data for future reporting.

Greenhouse Gas Emissions (including the Services Segment) for the period 1 July 2013 to 30 June 2014 from:	**Tonnes of CO_2e**
Scope 1 (including HGV and Commercial vehicles)	1,007
Scope 2	1,547
Vehicle emissions	1,267
Total Carbon Footprint (tonnes of CO_2e)	3,821
Intensity ratio (tonnes of CO_2e per £m)	15.8

Greenhouse Gas Emissions (excluding the Services Segment) for the period 1 July 2013 to 30 June 2014 from:	**Tonnes of CO_2e**
Scope 1	609
Scope 2	1,438
Vehicle emissions	1,244
Total Carbon Footprint (tonnes of CO_2e)	3,291
Intensity ratio (tonnes of CO_2e per £m)	17.0

The intensity ratio is higher for the continuing operations due to the dilution impact of the Services Segment divestment.

Directors' Report – Other Disclosures

The Directors present their annual report on the affairs of the Group, together with the audited Group financial statements for the year ended 30 June 2014. Certain disclosure requirements which form part of the Directors' Report are included elsewhere in this Annual Report. Therefore this report should be read in conjunction with the Strategic Report on pages 6 to 61 along with the Corporate Governance Report, Board Committee Reports, and Social, Ethical and Environmental Responsibilities Report. They are incorporated by reference into this Directors' Report and include:

- Details in respect of the Board of Directors (and changes made during the year);
- Directors' Indemnities;
- Statement of Directors' Responsibilities;
- Review of the Group's business during the year and any likely future developments;
- Employees with disabilities and employee involvement; and
- Greenhouse Gas Emissions.

Information in relation to post-balance sheet events and details of the Group's financial risk management objectives (including the exposure to price, credit and liquidity risk) can be found on pages 153 to 169 of the Financial Statements.

The Board reviews its work on corporate governance, including its statement of compliance, in the Corporate Governance Report on pages 66 to 77.

Acquisitions and Disposals

On 20 May 2014 Dechra acquired the trade and assets of PSPC Inc. (PSPC) for a consideration of up to US$14.2 million, of which US$8.5 million was paid in cash, US$1.5 million was contingent upon the successful registration of a new product (which was achieved in June 2014), and US$4.2 million which is contingent on future sales. Furthermore, in June 2014 Dechra acquired PSPC's facility for a further US$3.0 million. Further detail in relation to this acquisition can be found on pages 11 and 61 of the Strategic Report.

The disposal of the Services Segment was completed on 16 August 2013. Further detail in relation to this can be found at note 30 of the Accounts.

Amendment of the Articles of Association

The Company's Articles of Association may be amended by a special resolution of its shareholders.

Change of Control/Significant Agreements

As detailed in the Going Concern Statement on page 75 the Group has entered into a new facilities agreement with a syndicate of banks comprising HSBC Bank plc, The Royal Bank of Scotland plc and Barclays Bank PLC (the Banks). Under the terms of these facilities the Banks can give notice to the Company to repay all amounts outstanding under the facilities and cancel the commitments where there is a change of control of the Company. No other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business as a whole.

The Company does not have agreements with any director or employee that provides compensation for loss of office or employment resulting from a takeover, other than the Company share schemes. Under such schemes outstanding options and awards normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time. The Remuneration Committee has confirmed that it would exercise its own discretion to vest in full should a change of control of the Company occur before the LTIP awards vest. In relation to the recruitment award granted to Anne-Francoise Nesmes (further details of which can be found on page 100 of the Directors' Remuneration Report) the Remuneration Committee has confirmed that it will exercise its discretion and allow full vesting of the award should there be a change of control of the Company prior to the vesting date.

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

Directors

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

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

Overseas Branches
The Company has no overseas branches.

Political Donations and Expenditure
No political donations were made during the year ended 30 June 2014. The Group has a policy of not making any donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

Research and Development
The Group has a structured development programme with the aim of identifying and bringing to market new pharmaceutical products. Investment in development is seen as key to strengthen further the Group's competitive position. Further information in relation to product development can be found on pages 23 to 25. The expense on this activity for the year ended 30 June 2014 was £8,248,000 (2013: £7,961,000) and a further £1,065,000 (2013: £1,584,000) was capitalised as development costs.

Results and Dividends
The results for the year and financial position at 30 June 2014 are shown in the Consolidated Income Statement on page 121 and Consolidated Statement of Financial Position on page 123. The Directors recommend the payment of a final dividend of 10.65 pence per share which, if approved by shareholders, will be paid on 21 November 2014 to shareholders registered at 7 November 2014. The shares will become ex-dividend on 6 November 2014. An interim dividend of 4.75 pence per share was paid on 8 April 2014, making a total dividend for the year of 15.40 pence (2013: 14.00 pence). The total dividend payment is £13,500,000 (2013: £12,199,000).

Share Capital
The issued share capital of the Company for the year is set out in note 23 to the Consolidated Financial Statements on page 160. As at the end of the financial year 87,712,564 fully paid ordinary shares were in issue which included 555,120 ordinary shares issued during the year in connection with the exercise of options under the Company's share option schemes.

The holders of shares are entitled to receive dividends when declared, to receive the Company's Report and Accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights. There are no restrictions on transfer or limitations on the holding of shares in the Company, nor are there any requirements to obtain prior approval in respect of any transfer of shares. The Directors are not aware of any agreements which limit the transfer of shares or curtail voting rights attached to those shares. The only exception to this being the Trustees of the Dechra Employee Benefit Trust, who hold 83,478 shares and have waived their rights to dividends and in accordance with ABI guidelines they abstain from voting at general meetings.

At the Annual General Meeting of the Company held on 17 October 2013, the Company was authorised to purchase up to 8,715,744 of its ordinary shares, representing 10% of the issued share capital of the Company as at 16 September 2013. No shares were purchased under this authority during the financial year. A resolution will be put to shareholders at the forthcoming Annual General Meeting to renew this authority for a further period of one year. Under the proposed authority shares purchased may be either cancelled or held in treasury.

The Directors require authority from shareholders to allot unissued share capital to the Company and to disapply shareholders' statutory pre-emption rights. Such authorities were granted at the 2013 Annual General Meeting and resolutions to renew these authorities will be proposed at the 2014 Annual General Meeting.

Directors' Report – Other Disclosures continued

Substantial Interests in Voting Rights

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

	30 June 2014		20 August 2014	
	Aggregate voting rights	Percentage	Aggregate voting rights	Percentage
Schroders	**9,022,410**	**10.29**	9,136,910	10.42
Fidelity Management & Research	**8,566,217**	**9.77**	8,338,300	9.51
Aberdeen Group	**8,149,643**	**9.29**	8,133,896	9.27
Legal & General Group	**4,158,087**	**4.74**	4,158,087	4.74
Norges Bank	**3,520,489**	**4.01**	3,471,309	3.96
BlackRock Inc	**3,382,050**	**3.86**	3,373,421	3.85
Aviva plc	**3,025,919**	**3.45**	2,996,127	3.42
Rathbone plc	**2,997,616**	**3.42**	2,812,164	3.21
Neptune Investment Management	**2,981,023**	**3.40**	3,260,041	3.72

Auditor

A resolution to re-appoint KPMG LLP as external auditor and to authorise the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

Audit Information

Each of the Directors who held office at the date of the approval of the Directors' Report confirms that, so far as he or she is aware, there is no relevant audit information of which the external auditor is unaware, and each Director has taken all steps that he or she ought to have undertaken as a Director to make himself or herself aware of any relevant audit information and to establish that the external auditor is aware of that information.

The Directors' Report has been approved by the Board and signed on its behalf by:

Zoe Goulding
Company Secretary
8 September 2014

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Responsibility Statement

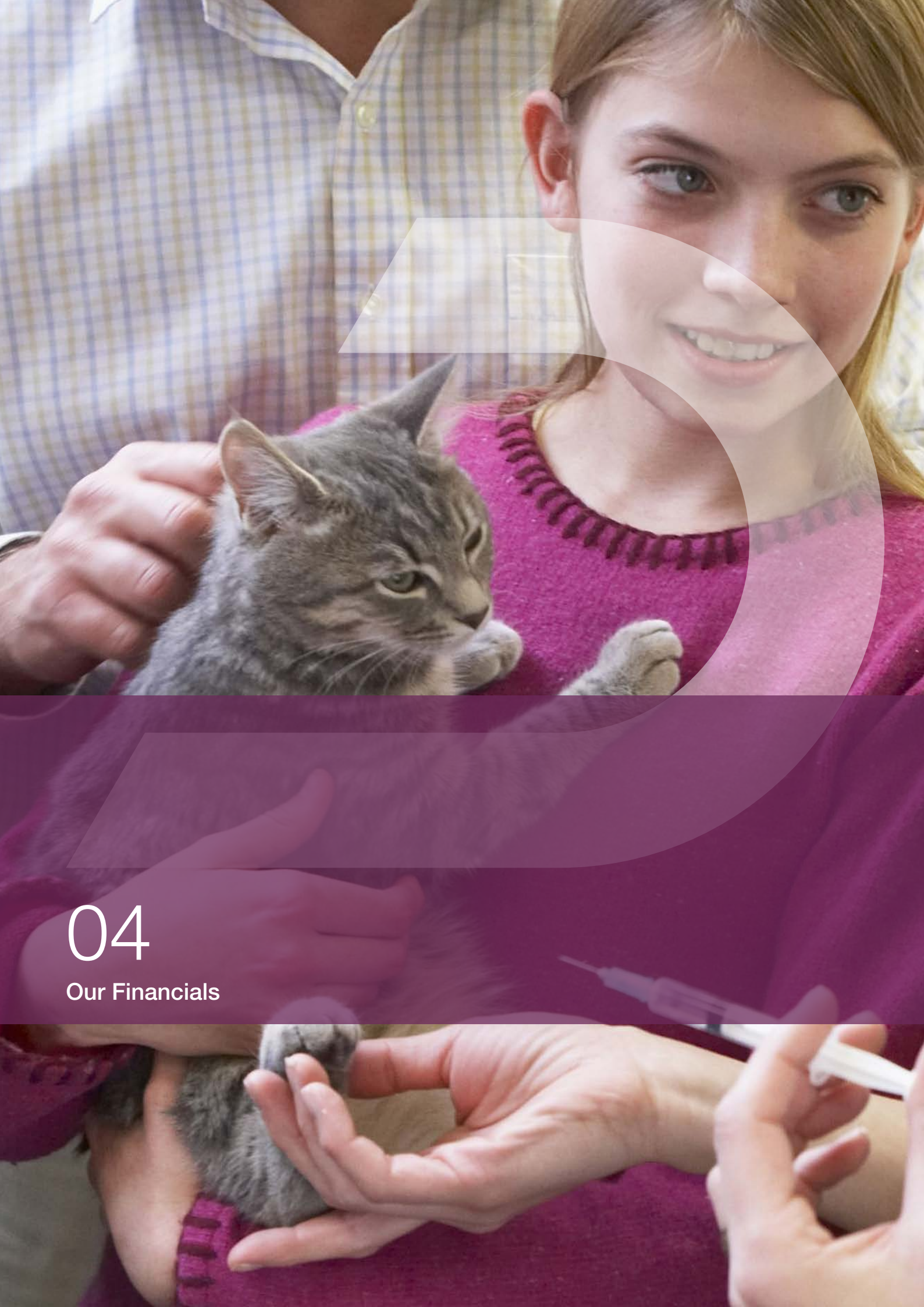
We confirm to the best of our knowledge:

1. The financial statements, prepared in accordance with the International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
2. The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
3. The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Approved by the Board and signed on its behalf by:

Ian Page
Chief Executive Officer
8 September 2014

Anne-Francoise Nesmes
Chief Financial Officer
8 September 2014



04

Our Financials

Dechra®
Pharmaceuticals PLC

Our Financials

Company Information

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

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Dechra Pharmaceuticals PLC for the year ended 30 June 2014 set out on pages 121 to 178. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risk of material misstatement that had the greatest effect on our audit was as follows:

Valuation of Goodwill and Acquired Intangible Assets (£187.9 million)

Refer to page 80 (Audit Committee Report), notes 1(g) and 1(j) (accounting policies) and note 13 (financial disclosures) of the Consolidated Financial Statements.

The risk:

- The Group balance sheet includes a significant amount of goodwill and other acquired intangible assets that have arisen as a result of acquisitions. There is a risk that below forecast performance of the business, or the cash generating unit (CGU), to which the assets are allocated will result in impairment. This could be due to weaker than forecast demand, product obsolescence or other factors.
- The recoverable amounts of the CGU's to which these intangible assets are allocated is determined on the basis of value in use calculations. Due to the inherent uncertainty involved in forecasting future cash flows and in determining appropriate discount rates, which are the basis of the assessment of recoverability, this is one of the key judgemental areas that our audit is concentrated on.

Our response — Our audit procedures in this area included, among others:

- Performing certain procedures to identify indicators for impairment of amortising intangible assets. These included reviewing Board meeting minutes, reviewing forecast performance and enquiring of management as to whether they are aware of any indicators of impairment;
- Checking that the valuation methodology, including the mathematical accuracy, used and allocation of cash flows between cash generating units is consistent year-on-year;
- Agreeing the cash flows in the models to detailed forecasts prepared by the Group and assessing the appropriateness of the assumptions used in the forecasts in light of historical results;
- Assessing whether the growth rates and the assumed asset lives used in the models are reasonable in light of historical growth rates and ensuring long term growth rates in the models do not exceed industry published data;
- Performing our own assessments of the key estimates and assumptions used to estimate the discount rate applied and challenging the Group's judgements if there are differences; and
- Performing a number of sensitivities to the key assumptions including growth and discount rates to challenge the Group's judgements.

We also assessed whether the Group's disclosures in respect of the impairment review and the sensitivity of the outcome of the impairment review to changes in key assumptions reflected the risks inherent in the valuation.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £1,709,000. This has been determined with reference to a benchmark of Group profit before taxation, which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group. Materiality represents 8.0% of Group profit before tax from continuing operations and 4.5% of Group profit before tax adjusted for amortisation of acquired intangibles as disclosed in the non-underlying note (note 5).

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £85,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed by component auditors at the key reporting components in the following countries: the UK, US, Netherlands, Denmark and Germany. These audits covered 97% of total Group revenue from continuing operations; 95% of Group profit before taxation from continuing operations; and 97% of total Group assets. The segment disclosures in note 2 sets out the individual significance of a specific country.

The audits undertaken for Group reporting purposes at the key reporting components of the Group were all performed to materiality levels set by the Group audit team. These materiality levels were set individually for each component and ranged from £400,000 to £1,500,000.

Detailed audit instructions were sent to all the auditors in these locations. These instructions covered the significant audit areas that should be covered by these audits and set out the information required to be reported back to the Group audit team. The Group audit team visited the following locations: the UK, US, Netherlands and Denmark. Telephone meetings were also held with the auditors at these locations and the majority of the other locations that were not physically visited.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' Statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

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

- the Directors' Statement, set out on page 75, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 68 to 77 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 115, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Graham Neale (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
8 September 2014

Consolidated Income Statement

For the year ended 30 June 2014

	Note	2014 Underlying £000	2014 Non-underlying items* (notes 4 & 5) £000	2014 Total £000	2013 Underlying £000	2013 Non-underlying items* (notes 4 & 5) £000	2013 Total £000
Revenue	2	**193,571**	**—**	**193,571**	189,176	—	189,176
Cost of sales		**(85,863)**	**—**	**(85,863)**	(88,470)	—	(88,470)
Gross profit		**107,708**	**—**	**107,708**	100,706	—	100,706
Selling, general and administrative expenses		**(57,292)**	**(17,172)**	**(74,464)**	(53,637)	(20,772)	(74,409)
Research and development expenses		**(8,248)**	**—**	**(8,248)**	(7,961)	—	(7,961)
Operating profit	2	**42,168**	**(17,172)**	**24,996**	39,108	(20,772)	18,336
Finance income	3	**302**	**—**	**302**	73	—	73
Finance expense	4	**(2,609)**	**(1,247)**	**(3,856)**	(5,634)	(297)	(5,931)
Profit before taxation — continuing operations	6	**39,861**	**(18,419)**	**21,442**	33,547	(21,069)	12,478
Income tax expense	8	**(8,012)**	**5,986**	**(2,026)**	(8,083)	6,455	(1,628)
Profit for the year — continuing operations		**31,849**	**(12,433)**	**19,416**	25,464	(14,614)	10,850
Profit for the year — discontinued operations	30	**1,020**	**38,611**	**39,631**	8,449	(1,386)	7,063
Profit for the year attributable to owners of the parent		**32,869**	**26,178**	**59,047**	33,913	(16,000)	17,913
Earnings per share							
Basic	10			**67.57p**			20.59p
— continuing operations				**22.22p**			12.47p
— discontinued operations				**45.35p**			8.12p
Diluted	10			**67.33p**			20.45p
— continuing operations				**22.14p**			12.39p
— discontinued operations				**45.19p**			8.06p
Dividend per share (interim paid and final proposed for the year)	9			**15.40p**			14.00p

* Non-underlying items comprise amortisation of acquired intangibles, acquisition expenses, rationalisation costs, loss on extinguishment of debt, the unwinding of discounts on deferred and contingent consideration, and profit and related expenses on the disposal of discontinued operations.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2014

	2014 £000	2013 £000
Profit for the year	**59,047**	17,913
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit pension scheme	**(136)**	(772)
	(136)	(772)
Items that may be reclassified subsequently to profit or loss:		
Effective portion of changes in fair value of cash flow hedges	**(341)**	(185)
Cash flow hedges recycled to income statement	**180**	557
Foreign currency translation differences for foreign operations	**(18,128)**	12,789
Income tax relating to components of other comprehensive income	**29**	(86)
	(18,260)	13,075
Total comprehensive income for the period attributable to owners of the parent	**40,651**	30,216

Consolidated Statement of Financial Position

At 30 June 2014

	Note	2014 £000	2013 £000
ASSETS			
Non-current assets			
Intangible assets	11	**196,182**	219,596
Property, plant and equipment	12	**18,258**	16,074
Total non-current assets		**214,440**	235,670
Current assets			
Inventories	15	**29,673**	29,199
Trade and other receivables	16	**29,888**	27,682
Cash and cash equivalents	17	**26,773**	32,791
Assets of disposal group held for sale	30	**—**	89,784
Total current assets		**86,334**	179,456
Total assets		**300,774**	415,126
LIABILITIES			
Current liabilities			
Borrowings	20	**(103)**	(9,750)
Trade and other payables	18	**(27,365)**	(28,483)
Deferred and contingent consideration	29	**(1,784)**	(957)
Current tax liabilities	19	**(6,463)**	(10,368)
Liabilities of disposal group held for sale	30	**—**	(53,961)
Total current liabilities		**(35,715)**	(103,519)
Non-current liabilities			
Borrowings	20	**(31,660)**	(103,840)
Deferred and contingent consideration	29	**(6,025)**	(4,971)
Employee benefit obligations	21	**(1,070)**	(996)
Deferred tax liabilities	14	**(21,498)**	(27,184)
Total non-current liabilities		**(60,253)**	(136,991)
Total liabilities		**(95,968)**	(240,510)
Net assets		**204,806**	174,616
EQUITY			
Issued share capital	23	**877**	872
Share premium account		**124,429**	123,485
Own shares	24	**(606)**	—
Hedging reserve		**(132)**	—
Foreign currency translation reserve		**(9,022)**	9,106
Merger reserve		**1,770**	1,770
Retained earnings		**87,490**	39,383
Total equity attributable to equity holders of the parent		**204,806**	174,616

The financial statements were approved by the Board of Directors on 8 September 2014 and are signed on its behalf by:

Ian Page
Chief Executive Officer
8 September 2014

Anne-Francoise Nesmes
Chief Financial Officer
8 September 2014

Company number: 3369634

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 30 June 2014

	Attributable to owners of the parent							
Year ended 30 June 2013	Issued share capital £000	Share premium account £000	Own shares £000	Hedging reserve £000	Foreign currency translation reserve £000	Merger reserve £000	Retained earnings £000	Total £000
At 1 July 2012	869	122,642	—	(286)	(3,683)	1,770	32,370	153,682
Profit for the period	—	—	—	—	—	—	17,913	17,913
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	—	(140)	—	—	—	(140)
Foreign currency translation differences for foreign operations	—	—	—	—	12,789	—	—	12,789
Remeasurement of defined benefit pension scheme	—	—	—	—	—	—	(772)	(772)
Cash flow hedges recycled to income statement, net of tax	—	—	—	426	—	—	—	426
Total comprehensive income	—	—	—	286	12,789	—	17,141	30,216
Transactions with owners								
Dividends paid	—	—	—	—	—	—	(11,170)	(11,170)
Share-based payments	—	—	—	—	—	—	1,042	1,042
Shares issued	3	843	—	—	—	—	—	846
Total contributions by and distributions to owners	3	843	—	—	—	—	(10,128)	(9,282)
At 30 June 2013	872	123,485	—	—	9,106	1,770	39,383	174,616
Year ended 30 June 2014								
At 1 July 2013	872	123,485	—	—	9,106	1,770	39,383	174,616
Profit for the period	—	—	—	—	—	—	59,047	59,047
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	—	(312)	—	—	—	(312)
Foreign currency translation differences for foreign operations	—	—	—	—	(18,128)	—	—	(18,128)
Remeasurement of defined benefit pension scheme	—	—	—	—	—	—	(136)	(136)
Cash flow hedges recycled to income statement, net of tax	—	—	—	180	—	—	—	180
Total comprehensive income	—	—	—	(132)	(18,128)	—	58,911	40,651
Transactions with owners								
Dividends paid	—	—	—	—	—	—	(12,579)	(12,579)
Share-based payments	—	—	—	—	—	—	1,775	1,775
Shares issued	5	944	—	—	—	—	—	949
Own shares purchased	—	—	(606)	—	—	—	—	(606)
Total contributions by and distributions to owners	5	944	(606)	—	—	—	(10,804)	(10,461)
At 30 June 2014	877	124,429	(606)	(132)	(9,022)	1,770	87,490	204,806

Hedging Reserve

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

Foreign Currency Translation Reserve

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

Merger Reserve

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2014

	Note	2014 £000	2013 £000
Cash flows from operating activities			
Profit for the period		**59,047**	17,913
Adjustments for:			
Depreciation	12	**2,197**	2,795
Amortisation and impairment	11	**18,340**	19,876
Loss on sale of property, plant and equipment	6	**—**	462
(Profit)/related expenses on disposal of discontinued operations, net of tax	30	**(38,611)**	1,357
Finance income	3	**(302)**	(73)
Finance expense	4	**3,856**	5,931
Equity settled share-based payment expense	25	**1,616**	821
Income tax expense		**2,322**	4,167
Operating cash flow before changes in working capital		**48,465**	53,249
(Increase)/decrease in inventories		**(2,811)**	1,299
Increase in trade and other receivables	30	**(21,100)**	(9,456)
(Decrease)/increase in trade and other payables		**(1,159)**	4,302
Cash generated from operating activities before interest and taxation		**23,395**	49,394
Interest paid		**(2,444)**	(4,788)
Income taxes paid		**(9,479)**	(7,741)
Net cash inflow from operating activities		**11,472**	36,865
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**—**	11
Interest received		**260**	74
Acquisition of subsidiaries	29	**(5,938)**	(10,333)
Proceeds from disposal of discontinued operations	30	**91,202**	—
Expenses related to the disposal of discontinued operations	30	**(1,576)**	—
Purchase of property, plant and equipment	12	**(4,927)**	(3,665)
Capitalised development expenditure	11	**(1,065)**	(1,584)
Purchase of other intangible non-current assets	11	**(1,381)**	(3,871)
Net cash inflow/(outflow) from investing activities		**76,575**	(19,368)
Cash flows from financing activities			
Proceeds from the issue of share capital	23	**949**	846
Own shares purchased	24	**(606)**	—
Repayment of borrowings		**(81,470)**	(5,653)
Resetting of foreign currency borrowings	20	**1,558**	(2,289)
Dividends paid	9	**(12,579)**	(11,170)
Net cash outflow from financing activities		**(92,148)**	(18,266)
Net decrease in cash and cash equivalents		**(4,101)**	(769)
Cash and cash equivalents at start of period	17	**32,791**	32,435
Exchange differences on cash and cash equivalents		**(1,917)**	1,125
Cash and cash equivalents at end of period	17	**26,773**	32,791
Reconciliation of net cash flow to movement in net borrowings			
Net decrease in cash and cash equivalents		**(4,101)**	(769)
Repayment of borrowings		**81,470**	5,653
New finance leases		**—**	(190)
Exchange differences on cash and cash equivalents		**(1,917)**	1,125
Retranslation of foreign borrowings		**1,935**	687
Other non-cash changes		**(1,578)**	(588)
Movement in net borrowings in the period		**75,809**	5,918
Net borrowings at start of period	26	**(80,799)**	(86,717)
Net borrowings at end of period	26	**(4,990)**	(80,799)

Notes to the Consolidated Financial Statements

1. Accounting Policies

Dechra Pharmaceuticals PLC is a company domiciled in the United Kingdom. The consolidated financial statements of the Group for the year ended 30 June 2014 comprise the Company and its subsidiaries.

(a) Statement of Compliance

These consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP and they are separately presented on pages 170 to 178.

(b) Basis of Preparation

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 6 to 61. The Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Refer to the Corporate Governance Report on page 75 for details.

The consolidated financial statements are presented in Sterling, rounded to the nearest thousand. They are prepared on a going concern basis and under the historical cost convention, except where International Financial Reporting Standards require an alternative treatment. The principal variations relate to derivative financial instruments, cash settled share-based transactions and contingent consideration that are stated at fair value.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of accounting estimates and for management to exercise its judgement in the process of applying the Group's accounting policies. These judgements and estimates are based on historical experience and management's best knowledge of the amounts, events or actions under review and the actual results may ultimately differ from these estimates. Areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are, where necessary, disclosed separately.

Discontinued Operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification of a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is presented as if the operation had discontinued from the start of the comparative period. The disposal of the Services Segment, as described in note 30, gives rise to a discontinued operation.

Critical Judgements in applying the Group's Accounting Policies and Key Sources of Estimation Uncertainty

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

(i) Impairment of Goodwill and Indefinite Life Intangible Assets

The Group determines whether goodwill and indefinite life assets are impaired at least on an annual basis. This requires an estimation of the value in use of the cash generating units to which they are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further detail on the assumptions used in determining value in use calculations is provided in note 13.

(ii) Valuation of Intangible Assets

Product rights and customer relationships that are acquired by the Group as part of a business combination are stated at fair value at the date of acquisition less accumulated amortisation and impairment losses.

Fair value at the date of acquisition reflects management's judgement of the fair value of the individual intangible asset calculated by reference to the net present value of future benefits accruing to the Group from the utilisation of the asset, discounted at an appropriate discount rate.

1. Accounting Policies continued

Adoption of New and Revised Standards

The following standards and interpretations are applicable to the Group and have been adopted in the current period as they are mandatory for the year ended 30 June 2014.

- Amendments to IAS 19 'Employee Benefits' — the amendments require immediate recognition of actuarial gains and losses in other comprehensive income and eliminate the corridor method. The principal amendment that has affected the Company is the requirement to calculate net interest income or expense using the discount rate used to measure the defined benefit obligation. The adoption of this standard has no significant impact.
- IFRS 13 'Fair Value Measurements' — replaces existing guidance on fair value measurement in different IFRSs with a single definition of fair value, a framework for measuring fair values and disclosures about fair value measurements. This standard applies to assets, liabilities and the Company's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value or when disclosure of fair value is provided. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The adoption of this standard has no significant impact.

There are no other new standards, amendments to standards or interpretations mandatory for the first time for the year ended 30 June 2014.

New Standards and Interpretations not yet Adopted

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

- IFRS 10 'Consolidated Financial Statements' — effective for annual periods beginning on or after 1 January 2014.
- IFRS 11 'Joint Arrangements' — effective for annual periods beginning on or after 1 January 2014.
- IFRS 12 'Disclosure of Interests in Other Entities' — effective for annual periods beginning on or after 1 January 2014.
- IAS 27 (Revised) 'Separate Financial Statements' — effective for annual periods beginning on or after 1 January 2014.

The Group does not anticipate that the adoption of the above amendments will have a material effect on its financial statements on initial adoption.

Notes to the Consolidated Financial Statements continued

1. Accounting Policies continued

(c) Basis of Consolidation

Subsidiary Undertakings

Subsidiary undertakings are fully consolidated from the date on which control is transferred to the Group. They cease to be consolidated from the date that the Group no longer has control. All subsidiary undertakings have been consolidated.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

The financial statements of all subsidiary undertakings are prepared to the same reporting date as the Company. During the 2013 financial year the reporting dates of the previously acquired *Eurovet* companies were brought in line with the Company.

(d) Foreign Currency Translation

(i) Functional and Presentational Currency

The consolidated financial statements are presented in Sterling, which is the Group's presentational currency and are rounded to the nearest thousand, except where it is deemed relevant to disclose the amounts to the nearest pound. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

(ii) Foreign Currency Translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, with the exception of differences on transactions that are subject to effective cash flow hedges, which are recognised in other comprehensive income.

(iii) Foreign Operations

The assets and liabilities of foreign operations are translated to Sterling at the closing rate at the reporting date. The income and expenses are translated to Sterling at the average rate for the period being reported. Foreign currency differences are recognised in other comprehensive income in the foreign currency translation reserve, a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. On disposal of a foreign entity, accumulated exchange differences previously recognised in other comprehensive income are recognised in the income statement in the same period in which the gain or loss on disposal is recognised.

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

The Group classifies its financial assets into the following categories: held for trading financial assets, and loans and receivables. The classification depends on the purpose for which the assets are held.

Management determines the classification of its financial assets at initial recognition in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' and re-evaluates this designation at every reporting date for financial assets other than those held at fair value through the income statement.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Gains and losses (both realised and unrealised) arising from changes in the value of financial assets held at fair value through the income statement are included in the income statement in the period in which they arise.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

1. Accounting Policies continued

Held for Trading Financial Assets

This category has two sub-categories: financial assets held for trading and those designated at fair value through the income statement at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives that do not qualify for hedge accounting are also categorised as held for trading. Held for trading financial assets are recognised and subsequently carried at fair value.

Derivative Financial Instruments

The Group uses derivative financial instruments to manage its exposure to foreign exchange and interest rate risks. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are remeasured to fair value at each reporting date.

Cash Flow Hedges

Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognised in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised immediately in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in other comprehensive income is transferred to the income statement in the same period that the hedged item affects profit or loss.

Trade Receivables

Trade and other receivables are initially recognised at fair value and subsequently stated at amortised cost less appropriate allowances for amounts which are expected to be non-recoverable. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is recognised in the income statement in operating expenses.

Trade and Other Payables

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

Borrowings and Borrowing Costs

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

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

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

Notes to the Consolidated Financial Statements continued

1. Accounting Policies continued

(f) Property, Plant and Equipment

Owned Assets

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

Leased Assets

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by finance leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Land is not depreciated. Assets in the course of construction are not depreciated until the date the assets become available for use. The estimated useful lives are as follows:

- freehold buildings 25 years
- short leasehold buildings period of lease
- plant and fixtures 3 to 10 years
- motor vehicles 4 years

The residual value, if not insignificant, is reassessed annually.

(g) Intangible Assets

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred since 1 July 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the separable assets, liabilities and contingent liabilities acquired.

Acquisitions after this date fall under the provisions of 'Revised IFRS 3 Business Combinations (2009)'. For these acquisitions, transaction costs, other than share and debt issue costs, are expensed as incurred and subsequent adjustments to the fair value of consideration payable are recognised in the income statement.

Contingent consideration is measured at fair value based on an estimate of the expected future payments.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is allocated to cash generating units and is tested annually for impairment.

1. Accounting Policies continued

Research and Development Costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense is incurred.

The Group is also engaged in development activity with a view to bringing new pharmaceutical products to market. Due to the strict regulatory process involved, there is inherent uncertainty as to the technical feasibility of development projects often until regulatory approval is achieved, with the possibility of failure even at a late stage. The Group considers that this uncertainty means that the criteria for capitalisation are not met unless it is highly probable that regulatory approval will be achieved and the project is commercially viable. Internally generated costs of development are capitalised, once the criteria are met, in the consolidated statement of financial position unless those costs cannot be measured reliably or it is not probable that future economic benefits will flow to the Group, in which case the relevant costs are expensed to the income statement as incurred.

Where development costs are capitalised, the expenditure includes the cost of materials, direct labour and an appropriate proportion of overheads.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Acquired Intangible Assets

Intangible assets recognised as a result of a business combination are stated at fair value at the date of acquisition less accumulated amortisation and impairment losses.

Other Intangible Assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and other intangibles is recognised in the income statement as an expense is incurred.

Subsequent Expenditure

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

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each consolidated statement of financial position date. Other intangible assets are amortised from the date that they are available for use. The estimated useful lives are as follows:

• software	5 to 7 years
• capitalised development costs	5 to 10 years or period of patent
• patent rights	period of patent
• marketing authorisations	indefinite life
• product rights	10 to 15 years
• customer relationships	10 years

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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

Notes to the Consolidated Financial Statements continued

1. Accounting Policies continued

(i) Cash and Cash Equivalents

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

(j) Impairment

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

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

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

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

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

An impairment loss in respect of goodwill is not reversed.

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

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

(k) Dividends

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

(l) Employee Benefits

Pensions

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

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

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

1. Accounting Policies continued

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

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

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

Share-based Payment Transactions

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

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

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

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

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

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

(m) Revenue Recognition

Revenue is recognised in the income statement when goods are supplied to external customers against orders, title and risk of loss are passed to the customer, reliable estimates can be made of relevant deductions and all relevant obligations have been fulfilled, such that the earnings process is regarded as being complete.

Revenue 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 the 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.

Notes to the Consolidated Financial Statements continued

1. Accounting Policies continued

(n) Leases

Operating Leases

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

Finance Leases

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

(o) Net Financing Costs

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

(p) Basis of Charge for Taxation

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

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

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

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

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

1. Accounting Policies continued

(q) Earnings per Share

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

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

2. Operating Segments

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

On 16 August 2013, the Group completed the disposal of the Services Segment. This Segment comprised National Veterinary Services, Dechra Laboratory Services and Dechra Specialist Laboratories. This Segment serviced UK veterinary practices in both the companion animal and livestock sectors. The Segment is a discontinued operation and was classified as held for sale at 30 June 2013. Refer to note 30 for further details and segmental analysis in relation to the Services Segment.

The European Pharmaceuticals Segment comprises Dechra Veterinary Products EU and Dechra Pharmaceuticals Manufacturing. This Segment operates internationally and manufactures and markets Companion Animal, Equine and Food producing Animal Products. This Segment also includes third party manufacturing sales.

The US Pharmaceuticals Segment consists of Dechra Veterinary Products US which sells companion animal pharmaceuticals into that territory. The Segment expanded during this financial year with the acquisition of PSPC Inc.'s manufacturing unit based in Melbourne, Florida.

The Pharmaceuticals Research and Development Segment includes all of the Group's pharmaceutical research and development activities. From a Board perspective, this Segment has no revenue income.

Notes to the Consolidated Financial Statements continued

2. Operating Segments continued

Reconciliations of reportable segment revenues, profit or loss and liabilities and other material items:

		2014 £000	2013 £000
Revenue by segment			
European Pharmaceuticals	— total	**172,449**	168,684
	— inter segment	**(35)**	—
US Pharmaceuticals	— total	**21,215**	20,889
	— inter segment	**(58)**	(397)
		193,571	189,176
Operating profit/(loss) by segment			
European Pharmaceuticals		**49,016**	45,819
US Pharmaceuticals		**5,980**	5,585
Pharmaceuticals Research and Development		**(8,248)**	(7,961)
Segment operating profit		**46,748**	43,443
Corporate and other unallocated costs		**(4,580)**	(4,335)
Underlying operating profit		**42,168**	39,108
Amortisation of acquired intangibles		**(16,543)**	(18,195)
Rationalisation costs		**(479)**	(2,577)
Acquisition costs		**(150)**	—
Total operating profit		**24,996**	18,336
Finance income		**302**	73
Finance expense		**(3,856)**	(5,931)
Profit before taxation — continuing operations		**21,442**	12,478
Total liabilities by segment			
Services (classified as held for sale in 2013)		**—**	(53,961)
European Pharmaceuticals		**(23,615)**	(24,985)
US Pharmaceuticals		**(8,884)**	(6,602)
Pharmaceuticals Research and Development		**(633)**	(804)
Segment liabilities		**(33,132)**	(86,352)
Corporate loans and revolving credit facility		**(31,653)**	(113,110)
Corporate accruals and other payables		**(3,222)**	(3,496)
Current and deferred tax liabilities		**(27,961)**	(37,552)
		(95,968)	(240,510)
Revenue by product category			
CAP		**98,747**	94,714
Equine		**12,585**	11,003
FAP		**35,865**	38,073
Diets		**28,372**	27,941
Third party manufacturing		**18,002**	17,445
		193,571	189,176
Additions to intangible non-current assets by segment (including through business combinations)			
Services (classified as held for sale in 2013)		**—**	88
European Pharmaceuticals		**1,356**	1,132
US Pharmaceuticals		**7,567**	3,143
Pharmaceuticals Research and Development		**1,065**	1,092
Corporate and central costs		**25**	—
		10,013	5,455

2. Operating Segments continued

	2014 £000	2013 £000
Additions to Property, Plant and Equipment by segment (including through business combinations)		
Services (classified as held for sale in 2013)	**—**	733
European Pharmaceuticals	**2,979**	2,622
US Pharmaceuticals	**2,185**	18
Pharmaceuticals Research and Development	**55**	69
Corporate and central costs	**26**	223
	5,245	3,665
Depreciation and amortisation by segment		
Services (included within discontinued operations)	**—**	757
European Pharmaceuticals	**17,684**	18,360
US Pharmaceuticals	**1,987**	3,112
Pharmaceuticals Research and Development	**816**	426
Corporate and central costs	**50**	16
	20,537	22,671

Geographical Information

The following table shows revenue based on the geographical location of customers and non-current assets based on the country of domicile of the entity holding the asset:

	2014 Revenue £000	2014 Non-current assets £000	2013 Revenue* £000	2013 Non-current assets £000
UK	**49,412**	**17,752**	48,950	17,651
Germany	**38,599**	**2,260**	36,376	2,399
Rest of Europe	**71,918**	**152,158**	74,285	176,674
USA	**21,242**	**42,270**	19,428	38,946
Rest of World	**12,400**	**—**	10,137	—
	193,571	**214,440**	189,176	235,670

* £2,309,000 has been reclassified from UK to Rest of Europe due to customer reclassification.

3. Finance Income

	2014 £000	2013 £000
Finance income arising from:		
— Cash and cash equivalents	**80**	2
— Loans and receivables	**61**	71
— Foreign exchange gains	**161**	—
	302	73

Notes to the Consolidated Financial Statements continued

4. Finance Expense

Underlying	2014 £000	2013 £000
Finance expense arising from:		
— Financial liabilities at amortised cost	**2,561**	5,150
— Net interest on net defined benefit obligations	**48**	1
— Foreign exchange losses	**—**	483
Underlying finance expense	**2,609**	5,634

Non-underlying	2014 £000	2013 £000
Loss on extinguishment of debt (note 20)	**1,213**	—
Unwinding of discounts on deferred and contingent consideration	**34**	297
Non-underlying finance expense	**1,247**	297
Total finance expense	**3,856**	5,931

5. Non-underlying Items

Non-underlying items comprise:

	2014 £000	2013 £000
Amortisation of intangible assets acquired as a result of acquisitions	**16,543**	18,195
Rationalisation costs	**479**	2,577
Expenses related to the acquisition of *Phycox*	**150**	—
	17,172	20,772

Rationalisation costs relate to the integration of *Eurovet* Animal Health B.V. and the ensuing senior management team restructure.

6. Profit Before Taxation

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

	2014 £000	2013 £000
Cost of inventories recognised as an expense	**80,632**	72,946
Impairment of inventories included in above figure	**672**	1,191
Depreciation of property, plant and equipment		
— owned assets	**2,185**	2,265
— under finance leases	**12**	110
Amortisation of intangible assets	**18,340**	19,539
Loss/(profit) on disposal of property, plant and equipment	**—**	472
Impairment/(release of impairment) of receivables	**48**	(7)
Operating lease rentals payable	**2,486**	2,341
Research and development expenditure as incurred	**8,248**	7,961
Auditor's remuneration	**477**	676
Analysis of total fees paid to the Auditor:		
Audit of these financial statements	**50**	50
Audit of financial statements of subsidiaries pursuant to legislation	**230**	217
Other services pursuant to legislation	**33**	30
Other assurance services	**29**	—
Other tax advisory services	**34**	89
Other services relating to transactions	**101**	290
	477	676
Discontinued operations		
Audit of financial statements of subsidiaries pursuant to legislation	**—**	36
Total fees paid to Auditor	**477**	712

7. Employees

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

	2014 Number	2013 Number
Continuing operations		
Manufacturing	**258**	289
Distribution	**72**	72
Administration	**433**	406
	763	767
Discontinued operations		
Manufacturing	**—**	60
Distribution	**42**	336
Administration	**23**	124
	65	520
Total	**828**	1,287

Notes to the Consolidated Financial Statements continued

7. Employees continued

The costs incurred in respect of these employees were:

	2014 £000	2013 £000
Continuing operations		
Wages and salaries	**32,939**	32,152
Social security costs	**4,256**	4,279
Other pension costs	**2,435**	2,389
Share-based payments charge (see note 25)	**1,994**	1,014
	41,624	39,834
Discontinued operations		
Wages and salaries	**1,327**	10,004
Social security costs	**101**	871
Other pension costs	**33**	243
	1,461	11,118
Total	**43,085**	50,952

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

	2014 £000	2013 £000
Short term employee benefits	**3,606**	3,886
Post-employment benefits	**215**	278
Share-based payments charge	**1,543**	598
	5,364	4,762

Key management comprises the Board and the Senior Executive Team.

Details of the remuneration, shareholdings, share options, pension contributions and payments for loss of office of the Executive Directors are included in the Directors' Remuneration Report on pages 86 to 105.

The Group operates a stakeholder personal pension scheme for certain employees and contributed between 4% and 14% of pensionable salaries. The Group also participates in state-run pension arrangements for certain employees in Dechra Veterinary Products SAS and Dechra Veterinary Products BV and operates defined benefit schemes in some countries. Total pension contributions amounted to £2,468,000 (2013: £2,632,000), of which £33,000 (2013: £243,000) related to discontinued operations. Contributions to defined benefit pension schemes included in the above figures total £731,000 (2013: £897,000).

8. Income Tax Expense

		2014 £000	2013 £000
Current tax	— UK corporation tax	**646**	675
	— overseas tax at prevailing local rates	**6,097**	5,871
	— adjustment in respect of prior years	**(910)**	(800)
Total current tax expense		**5,833**	5,746
Deferred tax	— origination and reversal of temporary differences	**(2,428)**	(4,502)
	— adjustment in respect of prior years	**(1,379)**	384
Total deferred tax expense		**(3,807)**	(4,118)
Total income tax expense in the Consolidated Income Statement — continuing operations		**2,026**	1,628
Tax on discontinued operations		**396**	2,539
Total income tax expense in the Consolidated Income Statement		**2,422**	4,167

The tax on the Group's profit before tax differs from the standard rate of UK corporation tax of 22.5% (2013: 23.75%). The differences are explained below:

	2014 £000	2013 £000
Profit before taxation — continuing operations	**21,442**	12,478
Tax at 22.5% (2013: 23.75%)	**4,824**	2,964
Effect of:		
— disallowable expenses	**98**	286
— innovation related tax credits	**(832)**	(39)
— differences on overseas tax rates	**331**	553
— adjustments in respect of prior years	**(2,289)**	(415)
— non-taxable foreign exchange gains	**—**	(137)
— change in tax rates	**(106)**	(1,584)
Total income tax expense — continuing operations	**2,026**	1,628
Tax on discontinued operations	**396**	2,539
Total income tax expense in the Consolidated Income Statement	**2,422**	4,167

Tax Credit Recognised Directly in Equity

	2014 £000	2013 £000
Deferred tax on effective portion of changes in fair value of cash flow hedges	**29**	(86)
Tax recognised in Consolidated Statement of Comprehensive Income	**29**	(86)
Corporation tax on equity settled transactions	**250**	152
Deferred tax on equity settled transactions	**(91)**	70
Total tax recognised in equity	**188**	136

The Budget on 20 March 2013 announced that the UK corporation tax rate will reduce to 20% by 2015. A reduction in the rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013.

The deferred tax balance at 30 June 2014 has been calculated based on the rate of 20% which was substantively enacted at the balance sheet date. The future rate reductions will affect the Group's future current tax charges.

Notes to the Consolidated Financial Statements continued

9. Dividends

	2014 £000	2013 £000
Final dividend paid in respect of prior year but not recognised as a liability in that year: 9.66p per share (2013: 8.50p)	**8,420**	7,390
Interim dividend paid: 4.75p per share (2013: 4.34p)	**4,159**	3,780
Total dividend 14.41p per share (2013: 12.84p) recognised as distributions to equity holders in the period	**12,579**	11,170
Proposed final dividend for the year ended 30 June 2014: 10.65p per share (2013: 9.66p)	**9,341**	8,419
Total dividend paid and proposed for the year ended 30 June 2014: 15.40p per share (2013: 14.00p)	**13,500**	12,199

In accordance with IAS 10 'Events After the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2014 has not been accrued for in these financial statements. It will be shown as a deduction from equity in the financial statements for the year ending 30 June 2015. There are no income tax consequences. The final dividend for the year ended 30 June 2013 is shown as a deduction from equity in the year ended 30 June 2014.

10. Earnings per Share

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

	2014 Pence	2013 Pence
Basic earnings per share		
— Underlying*	**37.61**	38.98
— continuing operations	**36.45**	29.27
— discontinued operations	**1.16**	9.71
— Basic	**67.57**	20.59
— continuing operations	**22.22**	12.47
— discontinued operations	**45.35**	8.12
Diluted earnings per share		
— Underlying*	**37.48**	38.71
— continuing operations	**36.32**	29.07
— discontinued operations	**1.16**	9.64
— Diluted	**67.33**	20.45
— continuing operations	**22.14**	12.39
— discontinued operations	**45.19**	8.06

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

	2014 £000	2013 £000
Earnings for underlying basic and underlying diluted earnings per share	**32,869**	33,913
— continuing operations	**31,849**	25,464
— discontinued operations	**1,020**	8,449
Earnings for basic and diluted earnings per share	**59,047**	17,913
— continuing operations	**19,416**	10,850
— discontinued operations	**39,631**	7,063

	No.	No.
Weighted average number of ordinary shares for basic earnings per share	**87,385,689**	87,011,352
Impact of share options	**312,771**	587,258
Weighted average number of ordinary shares for diluted earnings per share	**87,698,460**	87,598,610

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

At 30 June 2014, there are 799,997 options that are excluded from the EPS calculations as they are anti-dilutive for the period presented but may become dilutive in the future.

11. Intangible Assets

	Goodwill £000	Software £000	Development costs £000	Patent rights £000	Marketing authorisations £000	Acquired intangibles £000	Total £000
Cost							
At 1 July 2012	57,921	4,656	7,440	3,680	853	193,406	267,956
Additions	—	728	1,584	—	—	3,143	5,455
Disposals	—	(234)	—	—	—	—	(234)
Transferred to assets held for sale	(2,621)	(1,836)	—	—	—	(377)	(4,834)
Foreign exchange adjustments	3,055	98	47	—	—	8,658	11,858
At 30 June 2013 and 1 July 2013	58,355	3,412	9,071	3,680	853	204,830	280,201
Additions	—	1,381	1,065	—	—	—	2,446
Acquisitions through business combinations	84	—	—	—	—	7,483	7,567
Foreign exchange adjustments	(3,461)	(187)	(67)	—	—	(11,372)	(15,087)
At 30 June 2014	**54,978**	**4,606**	**10,069**	**3,680**	**853**	**200,941**	**275,127**
Amortisation							
At 1 July 2012	—	1,621	3,106	1,133	—	36,224	42,084
Charge for the year	—	451	857	335	—	18,233	19,876
Disposals	—	(234)	—	—	—	—	(234)
Transferred to assets held for sale	—	(891)	—	—	—	(230)	(1,121)
At 30 June 2013 and 1 July 2013	—	947	3,963	1,468	—	54,227	60,605
Charge for the year	—	341	1,122	334	—	16,543	18,340
At 30 June 2014	**—**	**1,288**	**5,085**	**1,802**	**—**	**70,770**	**78,945**
Net book value							
At 30 June 2014	**54,978**	**3,318**	**4,984**	**1,878**	**853**	**130,171**	**196,182**
At 30 June 2013 and 1 July 2013	58,355	2,465	5,108	2,212	853	150,603	219,596
At 30 June 2012	57,921	3,035	4,334	2,547	853	157,182	225,872

	2014 £000	2013 £000
Contracted capital commitments	**—**	6
Software assets in the course of construction included above	**2,856**	2,279

Included in contracted capital commitments is £nil (2013: £6,000) relating to assets held for sale.

Goodwill is allocated across cash-generating units that are expected to benefit from that business combination. Key assumptions made in this respect are given in note 13.

Notes to the Consolidated Financial Statements continued

11. Intangible Assets continued

In accordance with the disclosure requirements of IAS 38 'Intangible Assets' the components of acquired intangibles are summarised below:

	Acquired development costs £000	Product rights £000	Customer relationships £000	Total £000
Cost				
At 1 July 2012	22,445	170,584	377	193,406
Additions	—	3,143	—	3,143
Transferred to assets held for sale	—	—	(377)	(377)
Foreign exchange adjustments	2,475	6,183	—	8,658
At 30 June 2013 and 1 July 2013	24,920	179,910	—	204,830
Acquisitions through business combinations	—	7,483	—	7,483
Foreign exchange adjustments	(1,583)	(9,789)	—	(11,372)
At 30 June 2014	**23,337**	**177,604**	**—**	**200,941**
Amortisation				
At 1 July 2012	—	36,032	192	36,224
Charge for the year	2,243	15,952	38	18,233
Transferred to assets held for sale	—	—	(230)	(230)
At 30 June 2013 and 1 July 2013	2,243	51,984	—	54,227
Charge for the year	2,191	14,352	—	16,543
At 30 June 2014	**4,434**	**66,336**	**—**	**70,770**
Net book value				
At 30 June 2014	**18,903**	**111,268**	**—**	**130,171**
At 30 June 2013 and 1 July 2013	22,677	127,926	—	150,603
At 30 June 2012	22,445	134,552	185	157,182

The amortisation charge is recognised within administrative expenses in the Consolidated Income Statement.

The principal assets within acquired intangibles are the development costs and product rights recognised on the acquisitions of Dechra Veterinary Products Holding A/S, *DermaPet* Inc., *Genitrix* Limited and *Eurovet* Animal Health B.V. The carrying value of these assets at 30 June 2014 was £114.7 million with a remaining amortisation period of 3½ years, 11½ years, 6½ years and 8 years respectively. The other significant assets within acquired intangibles are the product rights recognised on the acquisition of Pharmaderm Animal Health and *HY-50*. The carrying value at 30 June 2014 was £1.3 million and £3.9 million with a remaining amortisation period of 9 years and 7½ years respectively.

In May 2014, the Company completed the purchase of product rights to *Phycox*, a patented nutraceutical which competes in the US veterinary joint health supplement market, as well as a new product in the final phase of development. The carrying value of these assets at 30 June 2014 is £7.4 million, with a remaining amortisation period of 10 years.

During the prior year the Company completed a licensing, supply and distribution agreement for a branded veterinary generic pharmaceutical product from a US pharmaceutical development company. Under the terms of the agreement Dechra paid US$1.5 million upon signing and will pay a further US$1.5 million on approval. There is a potential further contingent payment of US$2.0 million based on achieving US$20.0 million cumulative sales.

The principal asset within patent rights comprises payments to acquire the right to develop and market Trilostane, the active ingredient of *Vetoryl* Capsules, for animal health applications in the USA and Canada. The carrying value at 30 June 2014 was £1.0 million with a remaining amortisation period of 4½ years. The rights to *Equidone*, which was launched in the US during 2011, has a carrying value of £0.8 million with an amortisation period of 7 years.

£822,000 of the marketing authorisations relate to the *Vetivex* range of products. The *Vetivex* marketing authorisations are regarded as having indefinite useful economic lives and have not been amortised. Ownership of the marketing authorisations rests with the Group in perpetuity. There are not believed to be any legal, regulatory or contractual provisions that limit their useful lives. *Vetivex* is an established range of products which are relatively simple in nature and there are a limited number of players in the market. Accordingly, the Directors believe that it is appropriate that the marketing authorisations are treated as having indefinite lives for accounting purposes.

12. Property, Plant and Equipment

	Freehold land and buildings £000	Short leasehold buildings £000	Motor vehicles £000	Plant and fixtures £000	Total £000
Cost					
At 1 July 2012	8,877	3,459	217	15,276	27,829
Additions	1,442	45	—	2,178	3,665
Disposals	(168)	—	(82)	(2,503)	(2,753)
Transferred to assets held for sale	—	(349)	(135)	(4,706)	(5,190)
Foreign exchange adjustments	432	—	—	179	611
At 30 June 2013 and 1 July 2013	10,583	3,155	—	10,424	24,162
Additions	2,958	767	19	1,183	4,927
Acquisitions through business combinations	—	—	—	318	318
Disposals	—	—	(2)	(270)	(272)
Foreign exchange adjustments	(614)	—	(1)	(247)	(862)
At 30 June 2014	**12,927**	**3,922**	**16**	**11,408**	**28,273**
Depreciation					
At 1 July 2012	647	1,675	203	8,584	11,109
Charge for the year	772	224	—	1,799	2,795
Disposals	(78)	—	(70)	(2,134)	(2,282)
Transferred to assets held for sale	—	(198)	(133)	(3,203)	(3,534)
At 30 June 2013 and 1 July 2013	1,341	1,701	—	5,046	8,088
Charge for the year	697	196	—	1,304	2,197
Disposals	—	—	—	(270)	(270)
At 30 June 2014	**2,038**	**1,897**	**—**	**6,080**	**10,015**
Net book value					
At 30 June 2014	**10,889**	**2,025**	**16**	**5,328**	**18,258**
At 30 June 2013 and 1 July 2013	9,242	1,454	—	5,378	16,074
At 30 June 2012	8,230	1,784	14	6,692	16,720
Net book value of assets held under finance leases					
At 30 June 2014	**—**	**—**	**—**	**—**	**—**
At 30 June 2013 and 1 July 2013	—	—	—	163	163
At 30 June 2012	—	32	—	371	403

	2014 £000	2013 £000
Contracted capital commitments	**52**	68
Assets in the course of construction included above	**—**	1,290

Included in contracted capital commitments is £nil (2013: £55,000) relating to assets held for sale.

Notes to the Consolidated Financial Statements continued

13. Impairment Reviews

Goodwill, indefinite life assets and intangible assets not yet available for use are tested for impairment annually, or more frequently if there are indications that amounts might be impaired. Acquired intangible assets that are being amortised are effectively tested for impairment by virtue of their inclusion in the carrying value of the cash generating units to which goodwill is allocated. The impairment test involves determining the recoverable amount of the relevant asset or cash generating unit, which corresponds to the higher of the fair value less costs to sell or its value in use.

Value in use calculations are performed by forecasting the future cash flows attributable to the asset being tested (or the relevant cash generating unit in respect of goodwill). The forecast cash flows are discounted at an appropriate rate as described below.

Projected future cash flows have been derived from the business plan and extrapolated by applying a growth rate of 3% (2013: 3%) per annum up to year five and thereafter a growth rate of 0% (2013: 0%) per annum into perpetuity which is considered to be conservative compared to the long term average growth rate for the industry.

The business plan has been formulated based on various factors, including market growth forecasts, the competitive and legislative environments and existing product growth. These factors reflect past experience of the Group and, where applicable, are consistent with external sources of information.

The pre-tax discount rates have been estimated using a market participant rate, which is adjusted for consideration of market information, and risk adjusted dependent upon the specific circumstances of each asset or cash generating unit.

Value in use calculations were performed at 30 June 2014 for the following assets:

	2014			
Cash generating unit	**Goodwill carrying value £000**	**Indefinite life assets carrying value £000**	**Total value £000**	**Pre-tax discount rate %**
Dechra Veterinary Products EU	**52,368**	**822**	**53,190**	**11.4**
Dechra Veterinary Products US	**379**	**—**	**379**	**12.2**
Dechra Pharmaceuticals Manufacturing — Skipton	**2,231**	**—**	**2,231**	**11.3**
	54,978	**822**	**55,800**	

	2013			
Cash generating unit	Goodwill carrying value £000	Indefinite life assets carrying value £000	Total value £000	Pre-tax discount rate %
Dechra Veterinary Products EU	55,794	822	56,616	8.8
Dechra Veterinary Products US	330	—	330	10.4
Dechra Pharmaceuticals Manufacturing — Skipton	2,231	—	2,231	8.7
	58,355	822	59,177	

In all cases there was significant headroom between the carrying value and the value in use and no impairment provision is therefore required. An increase in the pre-tax discount rate of 1% and a reduction in the growth rate to nil would still not result in the requirement for an impairment provision.

14. Deferred Taxes

(a) Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2014 £000	2013 £000	**2014 £000**	2013 £000	**2014 £000**	2013 £000
Intangible assets	**—**	—	**(21,738)**	(27,548)	**(21,738)**	(27,548)
Property, plant and equipment	**—**	—	**(1,641)**	(1,896)	**(1,641)**	(1,896)
Inventories	**477**	1,067	**—**	—	**477**	1,067
Payables	**303**	212	**—**	—	**303**	212
Share-based payments	**719**	964	**—**	—	**719**	964
Losses	**90**	—	**—**	—	**90**	—
Employee benefit obligations	**292**	17	**—**	—	**292**	17
	1,881	2,260	**(23,379)**	(29,444)	**(21,498)**	(27,184)

Deferred tax assets and liabilities are offset to the extent that there is a legally enforceable right to offset current tax assets against current tax liabilities.

(b) Unrecognised Deferred Tax

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised is £nil (2013: £nil). The estimated unprovided deferred tax liability in relation to these temporary differences is £nil (2013: £nil). Deferred tax assets in relation to losses amounting to £6,000 (2013: £75,000) have not been recognised due to uncertainty over their recoverability.

(c) Movements During the Year

	Balance at 1 July 2012 £000	Recognised in income £000	Disposals £000	Recognised in equity £000	Foreign exchange adjustments £000	Balance at 30 June 2013 £000
Intangible assets	(29,984)	4,240	—	—	(1,804)	(27,548)
Property, plant and equipment	(1,691)	(117)	—	—	(88)	(1,896)
Inventories	1,178	(112)	—	—	1	1,067
Payables	267	19	—	(86)	12	212
Share-based payments	813	81	—	70	—	964
Employee benefit obligations	74	(58)	—	—	1	17
	(29,343)	4,053	—	(16)	(1,878)	(27,184)

	Balance at 1 July 2013 £000	Recognised in income £000	Disposals £000	Recognised in equity £000	Foreign exchange adjustments £000	**Balance at 30 June 2014 £000**
Intangible assets	(27,548)	4,147	34	—	1,629	**(21,738)**
Property, plant and equipment	(1,896)	(42)	193	—	104	**(1,641)**
Inventories	1,067	(596)	—	—	6	**477**
Payables	212	71	—	29	(9)	**303**
Share-based payments	964	(154)	—	(91)	—	**719**
Losses	—	94	—	—	(4)	**90**
Employee benefit obligations	17	287	—	—	(12)	**292**
	(27,184)	3,807	227	(62)	1,714	**(21,498)**

Amounts recognised in income relating to continuing operations total £3,807,000 (2013: £4,118,000).

Notes to the Consolidated Financial Statements continued

15. Inventories

	2014 £000	2013 £000
Raw materials and consumables	**7,031**	6,698
Work in progress	**2,507**	2,224
Finished goods and goods for resale	**20,135**	20,277
	29,673	29,199

16. Trade and Other Receivables

	2014 £000	2013 £000
Trade receivables	**28,325**	25,296
Other receivables	**857**	922
Prepayments and accrued income	**706**	1,464
	29,888	27,682

17. Cash and Cash Equivalents

	2014 £000	2013 £000
Cash at bank and in hand	**26,773**	32,791

18. Trade and Other Payables

	2014 £000	2013 £000
Trade payables	**12,867**	11,859
Other payables	**8,682**	6,973
Derivative financial instruments	**161**	15
Other taxation and social security	**680**	2,729
Accruals and deferred income	**4,975**	6,907
	27,365	28,483

19. Current Tax Liabilities

	2014 £000	2013 £000
Corporation tax payable	**6,463**	10,368

20. Borrowings

	2014 £000	2013 £000
Current liabilities:		
Bank loans	**—**	10,000
Finance lease obligations	**103**	338
Arrangement fees netted off	**—**	(588)
	103	9,750
Non-current liabilities:		
Bank loans	**32,039**	105,073
Finance lease obligations	**7**	142
Arrangement fees netted off	**(386)**	(1,375)
	31,660	103,840
Total borrowings	**31,763**	113,590

At 30 June 2014, the Group's borrowing facilities comprise a £65.0 million revolving credit facility committed until 31 October 2016, of which £32.0 million was drawn down at 30 June 2014, and various finance lease obligations. In September 2013, the proceeds from the divestment of the Services Segment were used to pay down the term loan in full and partly pay down the revolving credit facility. This gave rise to a loss on extinguishment of debt of £1,213,000.

Resetting of foreign currency borrowings within the Consolidated Statement of Cash Flows relates to the cash adjustment required to ensure the movements in foreign exchange rates do not result in the committed revolving credit facility being exceeded.

In September 2014, the Group refinanced its existing bank facility, which will give rise to a loss on extinguishment of debt of £386,000 in the year ending 30 June 2015. The Group's revised borrowing facility comprises a £90.0 million revolving credit facility and a £30.0 million Accordion facility committed until September 2019 and various finance lease obligations.

At the year end, the Group had the following unutilised borrowing facilities:

	2014 £000	2013 £000
Bank overdraft facility	**—**	10,000

The current revolving credit facility is secured by a fixed and floating charge on the assets of the Group. Interest is charged at 2.50% over LIBOR or the applicable base rate. All covenants were met during the year ended 30 June 2014.

The revised borrowing facility is not secured on any assets of the Group but is supported by a joint and several cross-guarantee structure. Interest will be charged at 1.30% over LIBOR.

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

	2014 £000	2013 £000
Payable:		
Within one year	**—**	10,000
Between one and two years	**32,039**	10,000
Between two and five years	**—**	95,073
	32,039	115,073

Notes to the Consolidated Financial Statements continued

20. Borrowings continued

The minimum lease payments and the present value of minimum lease payments payable under finance lease obligations are:

	Minimum lease payments		Present value of minimum lease payments	
	2014 £000	2013 £000	**2014 £000**	2013 £000
Within one year	**103**	361	**103**	338
Between one and two years	**7**	137	**7**	134
Between two and five years	**–**	8	**–**	8
Total minimum lease payments	**110**	506	**110**	480
Future finance charges	**–**	(26)	**–**	–
Present value of lease obligations	**110**	480	**110**	480

Further information on the interest profile of borrowings is shown in note 22.

21. Employee Benefit Obligations

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

The other defined benefit pension arrangements operated by the Company are unfunded: Jubilee awards of £182,000 (2013: £98,000) for employees in the Netherlands are recognised within other payables in the Consolidated Statement of Financial Position as at 30 June 2014.

The pension cost relating to the defined benefit pension arrangement in the Netherlands is assessed in accordance with the advice of an independent qualified actuary using the projected unit method.

The major actuarial assumptions used by the actuary were:

	2014	2013
Discount rate	**3.40%**	3.90%
Inflation assumption	**1.80%**	1.90%
Salary growth	**2.30%**	2.40%
Rate of increase in accrued pensions of active members	**1.20%**	1.30%
Rate of increase in pensions in payment	**0.00%**	0.00%
Rate of increase in pensions in deferment	**0.00%**	0.00%

21. Employee Benefit Obligations continued

In valuing the liabilities of the pension scheme at 30 June 2014 and 30 June 2013, mortality assumptions have been made as indicated below.

The mortality assumption follows the AG Prognosetafel 2012-2062 mortality tables with an experience adjustment in line with the ES-P2 tables as published by the Dutch Alliance of Insurers.

The assumptions used by the Group are the best estimates chosen by the Directors from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

	2014 £000	2013 £000
Present value of funded defined benefit obligations	**(5,927)**	(4,722)
Fair value of scheme assets	**4,857**	3,726
Net pension scheme deficit	**(1,070)**	(996)

Movements in Present Value of Defined Benefit Obligations

	2014 £000	2013 £000
Defined benefit obligation at beginning of the period	**4,722**	2,801
Service cost	**590**	446
Interest cost	**207**	124
Employee contributions	**152**	107
Remeasurement loss	**619**	1,076
Foreign exchange difference on translation	**(363)**	168
Defined benefit obligations at end of the period	**5,927**	4,722

Movements in Fair Value of Scheme Assets

	2014 £000	2013 £000
Fair value of scheme assets at beginning of the period	**3,726**	2,438
Interest income	**159**	123
Additional charges	**(99)**	(289)
Employer contributions	**731**	897
Employee contributions	**152**	107
Remeasurement gain	**483**	304
Foreign exchange difference on translation	**(295)**	146
Fair value of scheme assets at end of the period	**4,857**	3,726

Analysis of the Amount Charged to the Income Statement

	2014 £000	2013 £000
Service cost	**590**	446
Net interest cost	**48**	1
Additional charges	**99**	289
Net pension expense	**737**	736

Notes to the Consolidated Financial Statements continued

21. Employee Benefit Obligations continued

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

	2014 £000	2013 £000
Amounts charged in previous periods	**772**	—
Actuarial loss on defined benefit pension scheme	**136**	772
Net pension expense	**908**	772

Scheme Assets

The Group's defined benefit pension scheme in the Netherlands is financed through an insurance contract. Under this contract, a market price for the assets in respect of this insurance contract is not available. In accordance with IAS 19 for such insurance policies, an asset value has been calculated by discounting expected future cash flows. The discount rate used for this calculation reflects the risk associated with the scheme assets and the maturity or expected disposal date of those assets.

The fair value of the scheme's assets is as follows:

	2014 £000	2013 £000
Discount rate used to value assets	**3.40%**	3.90%
Total fair value of assets	**4,857**	3,726
Actual return on scheme assets	**159**	123

The long term rate of return on pension plan assets is determined by aggregating the expected return for each asset class over the strategic asset allocation as at the year end. This rate of return is then adjusted for any expected profit sharing based on market related returns on notional loans.

The scheme's assets do not include any of the Group's own financial instruments or any property occupied by or other assets used by the Group.

The employer has a contract with the insurance company Nationale-Nederlanden to cover the committed pension benefits.

The employer contributions expected to be paid into the scheme for the next financial period amount to £694,000 (2013: £571,000).

History of Amounts in the Current Period

	2014 £000	2013 £000	2012 £000
Present value of funded defined benefit obligations	**(5,927)**	(4,722)	(2,801)
Fair value of scheme assets	**4,857**	3,726	2,438
Deficit in the scheme	**(1,070)**	(996)	(363)

22. Financial Instruments and Related Disclosures

The Group's financial instruments comprise cash deposits, bank loans and overdrafts, finance lease obligations, derivatives used for hedging purposes and trade receivables and payables.

Treasury Policy

The Group reports in Sterling and pays dividends out of Sterling profits. The role of the Group's treasury activities is to manage and monitor the Group's external and internal funding requirements and financial risks in support of the Group's corporate activities.

The Board of Directors has approved a policy which governs all Treasury activities.

The Group uses a variety of financial instruments, including derivatives, to finance its operations and to manage market risks from these operations. Derivatives, principally comprising forward foreign currency contracts, foreign currency options and interest rate swaps, are used to hedge against changes in foreign currencies and interest rates.

The Group does not hold or issue derivative financial instruments for speculative purposes and the Group's treasury policy specifically prohibits such activity. All transactions in financial instruments are undertaken to manage the risks arising from underlying business activities, not for speculation.

Capital Management

The capital structure of the Group consists of net borrowings and shareholders' equity. At 30 June 2014, net borrowings were £5.0 million (2013: £80.8 million), whilst shareholders' equity was £204.8 million (2013: 174.6 million).

The Group maintains a strong capital base so as to maintain investors', creditors' and market confidence and to sustain future development of the business.

The Group manages its capital structure to maintain a prudent balance between debt and equity that allows sufficient headroom to finance the Group's product development programme and appropriate acquisitions. There were no changes in the Group's approach to capital management during the year.

The Group operates globally, primarily through subsidiary companies established in the markets in which the Group trades. The Group's operating subsidiaries are generally cash generative and none are subject to externally imposed capital requirements.

There are financial covenants associated with the Group's borrowings which are cash flow cover, interest cover, net debt to EBITDA and consolidated net worth. The Group comfortably complied with these covenants in 2014 and 2013.

Operating cash flow is used to fund investment in the development of new products as well as to make the routine outflows of capital expenditure, tax, dividends and repayment of maturing debt.

The Group's policy is to maintain borrowing facilities centrally which are then used to finance the Group's operating subsidiaries, either by way of equity investments or loans.

Notes to the Consolidated Financial Statements continued

22. Financial Instruments and Related Disclosures continued

Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- liquidity risk
- market risk
- credit risk

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk.

Liquidity Risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet liabilities as they fall due. Cash flows and covenants of the Group are monitored quarterly. These are reviewed to ensure sufficient financial headroom exists for at least a 12 month period.

The Group manages its funding requirements through the following lines of credit:

- £65.0 million revolving credit facility, of which £32.0 million was drawn down at 30 June 2014; and
- various finance leases

The Group's undrawn borrowing facilities at 30 June 2014 and details of its revised facility are detailed in note 20.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates or interest rates, will affect the Group's income or the value of its holding of financial instruments.

Interest Rate Risk Management

The majority of the Group's borrowings bear interest at floating rates linked to base rate or LIBOR and are consequently exposed to cash flow interest rate risk.

The Group has hedged interest rate risk on a proportion of its revolving credit facility by means of an interest rate swap arrangement whereby the Group's exposure to fluctuations in LIBOR is fixed at a rate of 0.85% on the revolving credit facility. The amount of the revolving credit outstanding at 30 June 2014 was £32.0 million (2013: £115.1 million). The hedge is in place until 31 October 2016 and the amount hedged matches the repayment profile of the facility.

Foreign Exchange Risk Management

Foreign currency transaction exposure arising on normal trade flows is not hedged. The Group matches receipts and payments in the relevant foreign currencies as far as possible. To this end, bank accounts are maintained for all the major currencies in which the Group trades. Translational exposure in converting the income statements of foreign subsidiaries into the Group's presentational currency of Sterling is not hedged.

The Group hedges selectively expected currency cash flows outside normal trading activities, principally using foreign currency options.

22. Financial Instruments and Related Disclosures continued

Credit Risk

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

The Group considers its maximum credit risk to be £55,955,000 (2013: £59,009,000) which is the total carrying value of the Group's financial assets.

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

The Group offers trade credit to customers in the normal course of business. Trade and bank references are obtained prior to extending credit. The financial statements of corporate customers are monitored on a regular basis.

The principal customers of the Pharmaceuticals Segments are European and US wholesalers. The failure of a large wholesaler could have a material adverse impact on the Group's financial results.

The largest customer of the Group (excluding assets relating to discontinued operations) accounted for approximately 8.4% of gross trade receivables at 30 June 2014 (2013: 2.0%). No customer accounted for more than 10% of total Group revenues.

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

Fair Value of Financial Assets and Liabilities

The following table presents the carrying amounts and the fair values of the Group's financial assets and liabilities at 30 June 2014 and 30 June 2013.

The following assumptions were used to estimate the fair values:

- Cash and cash equivalents — approximates to the carrying amount.
- Forward exchange contracts — based on market price and exchange rates at the balance sheet date.
- Interest rate swaps — based upon the amount that the Group would receive or pay to terminate the instrument at the balance sheet date, being the market price of the instrument.
- Receivables and payables — approximates to the carrying amount.
- Bank loans and overdrafts — based upon discounted cash flows using discount rates based upon facility rates renegotiated after the 30 June 2014 year end.
- Finance lease obligations — based upon discounted cash flows using discount rates based upon the Group's cost of borrowing at the balance sheet date.

Notes to the Consolidated Financial Statements continued

22. Financial Instruments and Related Disclosures continued

Analysis of Financial Instruments

The financial instruments of the Group are analysed as follows:

	2014		2013	
	Carrying value £000	**Fair value £000**	Carrying value £000	Fair value £000
Financial assets				
Cash and cash equivalents	**26,773**	**26,773**	32,791	32,791
	26,773	**26,773**	32,791	32,791
Loans and receivables				
— trade receivables	**28,325**	**28,325**	25,296	25,296
— other receivables	**857**	**857**	922	922
	29,182	**29,182**	26,218	26,218
Total financial assets	**55,955**	**55,955**	59,009	59,009
Financial liabilities				
Bank loans and overdrafts	**(32,039)**	**(32,039)**	(115,073)	(115,073)
Held for trading financial liabilities				
— derivatives designated as hedges	**(161)**	**(161)**	(15)	(15)
Finance lease liabilities	**(110)**	**(110)**	(480)	(480)
Trade payables	**(12,867)**	**(12,867)**	(11,859)	(11,859)
Other payables	**(8,682)**	**(8,682)**	(6,973)	(6,973)
Deferred and contingent consideration	**(7,809)**	**(7,809)**	(5,928)	(5,928)
Total financial liabilities	**(61,668)**	**(61,668)**	(140,328)	(140,328)
Net financial liabilities	**(5,713)**	**(5,713)**	(81,319)	(81,319)

Fair Value Hierarchy

The table below analyses the Group's financial instruments carried at fair value, by valuation method. Where possible, quoted prices in active markets are used (Level 1). Where such prices are not available, the asset or liability is classified as Level 2, provided all significant inputs to the valuation model used are based on observable market data. If one or more of the significant inputs to the valuation model is not based on observable market data, the instrument is classified as Level 3.

30 June 2014	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Derivative financial liabilities	**—**	**(161)**	**—**	**(161)**
Deferred and contingent consideration for business combinations	**—**	**—**	**(7,809)**	**(7,809)**
Total	**—**	**(161)**	**(7,809)**	**(7,970)**

30 June 2013	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative financial liabilities	—	(15)	—	(15)
Deferred and contingent consideration for business combinations	—	—	(5,928)	(5,928)
Total	—	(15)	(5,928)	(5,943)

At 30 June 2014, the deferred and contingent consideration balance is made up of £3.4 million in relation to the *DermaPet* acquisition, £1.9 million for a US generic pharmaceutical product, and £2.5 million in relation to the *Phycox* acquisition. Movements in deferred and contingent consideration consist of a £0.1 million unwinding of discount and £0.4 million decrease due to foreign exchange differences in relation to the *DermaPet* acquisition, £0.1 million discount and £0.2 million decrease due to foreign exchange differences in relation to the US generic pharmaceutical, and a £2.5 million addition for *Phycox*.

22. Financial Instruments and Related Disclosures continued

Credit Risk — Overdue Financial Assets

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

	2014 £000	2013 £000
Overdue by:		
Up to one month	**5,206**	4,052
Between one and two months	**270**	415
Between two and three months	**324**	11
Over three months	**11**	—
	5,811	4,478

The movement in the impairment provision was as follows:

	2014 £000	2013 £000
At start of period	**148**	2,877
Impairment provision recognised/(released)	**48**	(7)
Transferred to held for sale	**—**	(2,667)
Impairment provision utilised	**(20)**	(55)
At end of period	**176**	148

Liquidity Risk — Contracted Cash Flows of Financial Liabilities

The following table shows the cash flow commitments of the Group in respect of financial liabilities excluding derivatives at 30 June 2014 and 30 June 2013. Where interest is at floating rates, the future interest payments have been estimated using current interest rates:

At 30 June 2014	Deferred and contingent consideration £000	Bank loans and overdrafts £000	Finance leases £000	Trade and other payables £000	Total £000
Carrying value	**(7,809)**	**(31,653)**	**(110)**	**(21,549)**	**(61,121)**
Arrangement fees netted off	**—**	**(386)**	**—**	**—**	**(386)**
Future interest	**(1,952)**	**(202)**	**—**	**—**	**(2,154)**
Total committed cash flow	**(9,761)**	**(32,241)**	**(110)**	**(21,549)**	**(63,661)**
Payable:					
Within 6 months	**(773)**	**(202)**	**(73)**	**(21,549)**	**(22,597)**
Between 6 months and 1 year	**(183)**	**—**	**(30)**	**—**	**(213)**
Between 1 and 2 years	**(4,221)**	**(32,039)**	**(7)**	**—**	**(36,267)**
Between 2 and 3 years	**(403)**	**—**	**—**	**—**	**(403)**
Between 3 and 4 years	**(423)**	**—**	**—**	**—**	**(423)**
Between 4 and 5 years	**(445)**	**—**	**—**	**—**	**(445)**
Over 5 years	**(3,313)**	**—**	**—**	**—**	**(3,313)**
	(9,761)	**(32,241)**	**(110)**	**(21,549)**	**(63,661)**

Notes to the Consolidated Financial Statements continued

22. Financial Instruments and Related Disclosures continued

At 30 June 2013	Deferred and contingent consideration £000	Bank loans and overdrafts £000	Finance leases £000	Trade and other payables £000	Total £000
Carrying value	(5,928)	(113,110)	(480)	(18,832)	(138,350)
Arrangement fees netted off	—	(1,963)	—	—	(1,963)
Future interest	(318)	(3,761)	(26)	—	(4,105)
Total committed cash flow	(6,246)	(118,834)	(506)	(18,832)	(144,418)
Payable:					
Within 6 months	—	(6,203)	(354)	(18,832)	(25,389)
Between 6 months and 1 year	(986)	(5,639)	(7)	—	(6,632)
Between 1 and 2 years	(3,945)	(11,053)	(137)	—	(15,135)
Between 2 and 3 years	(1,315)	(13,233)	(8)	—	(14,556)
Between 3 and 4 years	—	(82,706)	—	—	(82,706)
Between 4 and 5 years	—	—	—	—	—
Over 5 years	—	—	—	—	—
	(6,246)	(118,834)	(506)	(18,832)	(144,418)

The contractual undiscounted cash flows in respect of derivative financial instruments are as follows:

	2014 £000	2013 £000
Due:		
Within 6 months	**34**	83
Between 6 months and 1 year	**34**	(12)
Between 1 and 2 years	**69**	(25)
Between 2 and 5 years	**24**	(31)
	161	15

The Group has a contractual obligation to pay £34,000 (2013: £83,000) under its interest rate swap arrangement covering the period from 30 June to 30 September 2014.

With the exception of the above disclosed, there are no other assets that have been impaired during the year.

22. Financial Instruments and Related Disclosures continued

Foreign Currency Exposure

The Sterling equivalents of financial assets and liabilities denominated in foreign currencies at 30 June 2014 and 30 June 2013 were:

At 30 June 2014	Danish Krone £000	Euro £000	US Dollar £000	Other £000
Financial assets				
Trade receivables	**1,530**	**4,825**	**349**	**8,377**
Other receivables	**48**	**110**	**—**	**234**
Cash balances	**409**	**5,300**	**721**	**3,940**
	1,987	**10,235**	**1,070**	**12,551**
Financial liabilities				
Bank loans and overdrafts	**—**	**(6,258)**	**(28,321)**	**—**
Trade payables	**(630)**	**(1,444)**	**(503)**	**(97)**
Other payables	**—**	**—**	**(2,457)**	**—**
Derivatives	**—**	**(86)**	**(75)**	**—**
	(630)	**(7,788)**	**(31,356)**	**(97)**
Net balance sheet exposure	**1,357**	**2,447**	**(30,286)**	**12,454**

At 30 June 2013	Danish Krone £000	Euro £000	US Dollar £000	Other £000
Financial assets				
Trade receivables	52	6,063	4,055	5,844
Other receivables	3	39	23	211
Cash balances	2,903	5,338	3,499	2,081
	2,958	11,440	7,577	8,136
Financial liabilities				
Bank loans and overdrafts	—	(11,990)	(29,567)	—
Trade payables	(34)	(1,181)	(1,389)	(124)
	(34)	(13,171)	(30,956)	(124)
Net balance sheet exposure	2,924	(1,731)	(23,379)	8,012

Sensitivity Analysis

Interest Rate Risk

A 2.0% increase in interest rates compared to those ruling at 30 June 2014 would reduce Group profit before taxation and equity by £138,000 (2013: £621,000).

Notes to the Consolidated Financial Statements continued

22. Financial Instruments and Related Disclosures continued

Foreign Currency Risk

The Group has significant cash flows and net financial assets and liabilities in Danish Krone, US Dollar and Euro. The Group does not hedge either economic exposure or the translation exposure arising from the profits, assets and liabilities of non-Sterling businesses.

The following table shows the impact on the Group's profit before taxation and net assets of a 10% appreciation of Sterling against each of these currencies:

	Profit before taxation £000	Net assets £000
Danish Krone	(136)	(136)
US Dollar	(248)	(248)
Euro	(3,029)	(3,029)

The sensitivities above represent the Directors view of reasonably possible changes in each risk variable, not worst case scenarios or stress tests. The outputs from the sensitivity analysis are estimates of the impact of the effect of changes in market risks assuming that the specified changes occur at the year end and are applied to the risk exposures at that date. Accordingly they show the impact on the balance sheet of an instantaneous shock.

Actual results in the future may differ materially from these estimates due to commercial actions taken to mitigate any potential losses from such rate movements, to the interaction of more than one sensitivity occurring and to further developments in global financial markets. As such this table should not be considered as a projection of likely future gains and losses.

Hedges

Cash Flow Hedges

The Group has entered into an interest rate swap on the revolving credit facility of £32.0 million. The Group has designated this a cash flow hedge. The risk being hedged is the variability of cash flows arising from movements in interest rates. No ineffectiveness arose on the hedge.

The hedge is in place until 31 October 2016. The amounts recognised in equity are recycled to the Consolidated Income Statement to offset gains and losses in the period in which the cash flows occur.

The amount recognised in equity in the year ended 30 June 2014 was a liability of £132,000 including an income tax credit of £29,000 (2013: £nil including an income tax credit of £15,000).

23. Share Capital

	Ordinary shares of 1p each			
	2014		2013	
	£000	**No.**	£000	No.
Allotted, called up and fully paid at start of year	**872**	**87,157,444**	869	86,870,176
New shares issued	**5**	**555,120**	3	287,268
Allotted, called up and fully paid at end of year	**877**	**87,712,564**	872	87,157,444

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital. At the 2009 Annual General Meeting the shareholders approved a resolution whereby all provisions relating to the Company's authorised share capital were removed from the Company's constitutional documents.

During the year 555,120 new ordinary shares of 1p (2013: 287,268 new ordinary shares of 1p) were issued following the exercise of options under the Long Term Incentive Plan, and the Approved, Unapproved and SAYE Share Options Schemes. The consideration received was £949,503 (2013: £845,674). The holders of ordinary shares are entitled to receive dividends as declared or approved at General Meetings from time to time and are entitled to one vote per share at such meetings of the Company.

24. Own Shares

	2014 £000	2013 £000
Acquired in the period	**606**	—
At end of period	**606**	—

The own shares reserve represents the cost of shares in Dechra Pharmaceuticals PLC purchased in the market and held by the Group's Employee Benefit Trust to satisfy options under the Group's share options schemes (see note 25 for details). The number of ordinary shares held by the Employee Benefit Trust at 30 June 2014 was 83,478 (2013: nil).

25. Share-based Payments

During the year, the Company operated the Unapproved Share Option Scheme, the Approved Share Option Scheme, the Long Term Incentive Plan and the Save As You Earn (SAYE) Share Option Scheme as described below:

Unapproved and Approved Share Option Schemes

Under these Schemes, options are granted to certain Executives and employees of the Group (excluding Executive Directors) to purchase shares in the Company at a price fixed at the average market value over the three days prior to the date of grant. For the options to vest, there must be an increase in earnings per share of at least 12% above the growth in the UK Retail Prices Index (RPI) over a three year period. Once vested, options must be exercised within ten years of the date of grant.

Long Term Incentive Plan

For Awards granted before 5 March 2013: Vesting is dependent on an underpin condition based on the Company's adjusted diluted earnings per share performance. No Awards will vest unless adjusted diluted earnings per share has grown by at least 3% per annum above the retail prices index over the three year measurement period. Provided this condition is met, then the number of shares that vest depends on the Company's TSR performance against the FTSE Small Cap Index over the three year measurement period. 100% of the shares vest if the Company achieves an upper quartile performance, 25% of the shares vest at median performance, and awards vest on a straight-line basis for performance in between. No shares vest if performance is below median.

For Awards granted on and after 5 March 2013: Vesting is dependent on two performance conditions which must be satisfied over a three year performance period commencing from the start of the financial year within which the award is granted. 50% of the Award will vest dependent on the Company's TSR performance against an appropriate comparator group. 50% of the Award will vest subject to a performance condition based on the annual earnings per share growth. Each of the TSR and EPS elements is subject to an additional ROCE underpin. Unless the Company's ROCE is 10% or more in the final year of the performance period, the award will lapse in full.

SAYE Option Scheme

This scheme is open to all UK employees. Participants save a fixed amount of up to £250 per month for either three or five years and are then able to use these savings to buy shares in the Company at a price fixed at a 20% discount to the market value at the start of the savings period. Prior to 16 October 2012 participants were able to save for a seven year period. The SAYE options must ordinarily be exercised within six months of the completion of the relevant savings period. The exercise of these options is not subject to any performance criteria.

Notes to the Consolidated Financial Statements continued

25. Share-based Payments continued

Year ended 30 June 2014

	Exercise Period	Exercise price per share* Pence	At 1 July 2013 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2014 Number
Unapproved Share Option Scheme							
19 March 2007†	2010–2017	265.43	7,120	(7,120)	—	—	**—**
2 April 2008†	2011–2018	336.15	17,201	(7,286)	—	—	**9,915**
10 October 2008†	2011–2018	364.62	20,142	—	—	—	**20,142**
30 March 2009†	2012–2019	381.15	34,355	(7,141)	—	—	**27,214**
1 March 2010†	2013–2020	418.81	29,672	(8,998)	—	—	**20,674**
28 February 2011†	2014–2021	461.97	52,683	(12,526)	—	(3,238)	**36,919**
10 September 2012	2015–2022	541.00	90,772	(1,307)	—	(24,221)	**65,244**
16 September 2013	2016–2023	721.00	—	—	54,842	(3,000)	**51,842**
5 March 2014	2017–2024	698.00	—	—	2,000	—	**2,000**
			251,945	(44,378)	56,842	(30,459)	**233,950**
Approved Share Option Scheme							
5 April 2005†	2008–2015	185.98	8,709	(8,709)	—	—	**—**
15 March 2006†	2009–2016	231.45	14,151	(14,151)	—	—	**—**
19 March 2007†	2010–2017	265.43	30,845	(23,225)	—	—	**7,620**
2 April 2008†	2011–2018	336.15	23,334	(13,568)	—	—	**9,766**
10 October 2008†	2011–2018	364.62	2,722	(2,722)	—	—	**—**
30 March 2009†	2012–2019	381.15	5,922	(5,922)	—	—	**—**
1 March 2010†	2013–2020	418.81	21,486	(13,976)	—	—	**7,510**
28 February 2011†	2014–2021	461.97	15,888	(4,550)	—	(861)	**10,477**
10 September 2012	2015–2022	541.00	17,228	—	—	(6,472)	**10,756**
16 September 2013	2016–2023	721.00	—	—	15,158	—	**15,158**
			140,285	(86,823)	15,158	(7,333)	**61,287**
Long Term Incentive Plan							
22 December 2010	2013–2014	—	207,339	(207,339)	—	—	**—**
7 September 2011	2014–2015	—	245,722	(68,878)	—	(15,803)	**161,041**
5 March 2013	2016–2016	—	279,323	(4,047)	—	(49,108)	**226,168**
27 September 2013	2014–2015	—	—	—	83,478	—	**83,478**
27 November 2013	2016–2017	—	—	—	309,718	(33,706)	**276,012**
			732,384	(280,264)	393,196	(98,617)	**746,699**
SAYE Option Scheme							
12 October 2006	2009–2013	179.77	3,909	(3,909)	—	—	**—**
17 October 2007	2010–2014	257.16	8,546	(6,694)	—	(1,852)	**—**
13 October 2008	2011–2015	315.02	36,422	(30,909)	—	(207)	**5,306**
12 October 2009	2012–2016	304.92	27,814	(6,321)	—	(2,070)	**19,423**
13 December 2010	2013–2017	375.64	92,291	(61,906)	—	(14,006)	**16,379**
17 October 2011	2014–2018	365.54	88,145	(23,852)	—	(22,683)	**41,610**
16 October 2012	2015–2019	471.00	115,059	(10,064)	—	(45,014)	**59,981**
7 April 2014	2017–2019	552.00	—	—	111,078	—	**111,078**
			372,186	(143,655)	111,078	(85,832)	**253,777**
Total			1,496,800	(555,120)	576,274	(222,241)	**1,295,713**
Weighted average exercise price*			205.61p	171.04p	195.40p	254.63p	**207.91p**

* Adjusted to reflect the bonus element of the Rights Issue — there has been no impact on the overall fair value of options in issue.

† Total share options exercisable at 30 June 2014 are 191,976.

25. Share-based Payments continued
Year ended 30 June 2013

	Exercise Period	Exercise price per share* Pence	At 1 July 2012 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2013 Number
Unapproved Share Option Scheme							
11 April 2003†	2006–2013	53.73	2,722	(2,722)	—	—	—
19 March 2007†	2010–2017	265.43	14,615	(7,495)	—	—	7,120
2 April 2008†	2011–2018	336.15	27,029	(9,828)	—	—	17,201
10 October 2008†	2011–2018	364.62	33,752	(13,610)	—	—	20,142
30 March 2009†	2012–2019	381.15	52,862	(18,507)	—	—	34,355
1 March 2010†	2013–2020	418.81	52,314	(16,302)	—	(6,340)	29,672
28 February 2011	2014–2021	461.97	60,361	—	—	(7,678)	52,683
10 September 2012	2015–2022	541.00	—	—	93,772	(3,000)	90,772
			243,655	(68,464)	93,772	(17,018)	251,945
Approved Share Option Scheme							
2 April 2004†	2007–2014	123.53	10,887	(10,887)	—	—	—
5 April 2005†	2008–2015	185.98	22,862	(14,153)	—	—	8,709
15 March 2006†	2009–2016	231.45	23,949	(9,798)	—	—	14,151
19 March 2007†	2010–2017	265.43	54,918	(24,073)	—	—	30,845
2 April 2008†	2011–2018	336.15	37,363	(14,029)	—	—	23,334
10 October 2008†	2011–2018	364.62	2,722	—	—	—	2,722
30 March 2009†	2012–2019	381.15	12,454	(6,532)	—	—	5,922
1 March 2010†	2013–2020	418.81	30,413	(5,470)	—	(3,457)	21,486
28 February 2011	2014–2021	461.97	21,273	—	—	(5,385)	15,888
10 September 2012	2015–2022	541.00	—	—	17,228	—	17,228
			216,841	(84,942)	17,228	(8,842)	140,285
Long Term Incentive Plan							
24 September 2009	2012–2013	—	302,421	—	—	(302,421)	—
22 December 2010	2013–2014	—	256,780	—	—	(49,441)	207,339
7 September 2011	2014–2015	—	304,060	—	—	(58,338)	245,722
5 March 2013	2016–2016	—	—	—	279,323	—	279,323
			863,261	—	279,323	(410,200)	732,384
SAYE Option Scheme							
12 October 2006	2009–2013	179.77	3,909	—	—	—	3,909
17 October 2007	2010–2014	257.16	76,022	(55,777)	—	(11,699)	8,546
13 October 2008	2011–2015	315.02	42,588	—	—	(6,166)	36,422
12 October 2009	2012–2016	304.92	114,713	(78,085)	—	(8,814)	27,814
13 December 2010	2013–2017	375.64	95,020	—	—	(2,729)	92,291
17 October 2011	2014–2018	365.54	100,126	—	—	(11,981)	88,145
16 October 2012	2015–2019	471.00	—	—	125,715	(10,656)	115,059
			432,378	(133,862)	125,715	(52,045)	372,186
Total			1,756,135	(287,268)	516,038	(488,105)	1,496,800
Weighted average exercise price*			172.47p	294.39p	231.11p	61.10p	205.61p

* Adjusted to reflect the bonus element of the Rights Issue — there has been no impact on the overall fair value of options in issue.

† Total share options exercisable at 30 June 2013 are 215,659.

The weighted average exercise price of options eligible to be exercised at 30 June 2014 was 312.8p (2013: 341.8p).

For options exercised during the year, the weighted average market price at the date of exercise was 694p (2013: 629p). The weighted average remaining contractual lives of options outstanding at the Consolidated Statement of Financial Position date was four years (2013: four years).

Notes to the Consolidated Financial Statements continued

25. Share-based Payments continued

Outstanding options on all Long Term Incentive Plan, Approved and Unapproved plans prior to 30 June 2011 were exercisable at 30 June 2014. 41,739 options of the 27 September 2013 Long Term Incentive Plan were exercisable at 30 June 2014.

No options issued under SAYE plans were exercisable at 30 June 2014.

The fair values for shares granted under the Unapproved, Approved and SAYE Option Schemes have been calculated using the Black–Scholes option pricing model. The fair values of shares awarded under the Long Term Incentive Plan have been calculated using a Monte Carlo simulation model which takes into account the market-based performance conditions attaching to those shares.

The assumptions used in calculating fair value are as follows:

Long Term Incentive Plan

Date of grant	27/11/13	27/09/13	05/03/13
Number of shares awarded	309,718	83,478	279,323
Share price at date of grant	681p	715p	699p
Exercise price	Nil	Nil	Nil
Expected life	2.58 years	1-2 years	3 years
Risk-free rate	0.73%	0.38%	0.34%
Volatility	25%	25%	28%
Dividend yield	2.05%	1.97%	1.72%
Fair value per share	461p	617p	590p

Unapproved and Approved Share Option Schemes

Date of grant	16/09/13 and 05/03/14	10/09/12
Number of shares awarded	72,000	111,000
Share price at date of grant	738p	558.5p
Exercise price	721p	541p
Expected life	5 years	5 years
Risk-free rate	1.69%	0.66%
Volatility	33%	34%
Dividend yield	1.90%	2.20%
Fair value per share	197p	141p

25. Share-based Payments continued
Save As You Earn Option Scheme

Date of grant	07/04/14	16/10/12
Number of shares awarded	111,078	125,715
Share price at date of grant	675p	591p
Exercise price	552p	471p
Expected life		
— three year scheme	3.25 years	3.25 years
— five year scheme	5.25 years	5.25 years
Risk-free rate		
— three year scheme	1.21%	0.41%
— five year scheme	1.87%	0.84%
Volatility		
— three year scheme	24%	34%
— five year scheme	27%	34%
Dividend yield	2.13%	2.08%
Fair value per share		
— three year scheme	158p	171p
— five year scheme	193p	192p

Expected volatility was determined by calculating the historical volatility of the Group's share price over its entire trading history.

National Insurance contributions are payable by the Company in respect of some of the share-based payments. These contributions are payable on the date of exercise based on the intrinsic value of the share-based payments and are therefore treated as cash settled awards. The Group had an accrual at 30 June 2014 of £429,000 (2013: £260,000), of which £50,000 (2013: £39,000) related to vested options. The total charge to the Income Statement in respect of share-based payments was:

	2014 £000	2013 £000
Equity settled share-based transactions	**1,616**	821
Cash settled share-based transactions	**378**	193
	1,994	1,014

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

Notes to the Consolidated Financial Statements continued

26. Analysis of Net Borrowings

	2014 £000	2013 £000
Bank loans	**(31,653)**	(113,110)
Finance leases and hire purchase contracts	**(110)**	(480)
Cash and cash equivalents	**26,773**	32,791
Net borrowings	**(4,990)**	(80,799)

27. Operating Leases

At the balance sheet date the Group had outstanding commitments for future minimum rentals payable under non-cancellable operating leases as follows:

	Land and buildings		Other assets		Total	
	2014 £000	2013 £000	**2014 £000**	2013 £000	**2014 £000**	2013 £000
Within one year	**785**	1,362	**1,264**	2,432	**2,049**	3,794
Between one and five years	**2,735**	2,775	**1,217**	2,357	**3,952**	5,132
In five years or more	**2,254**	2,787	**–**	49	**2,254**	2,836
	5,774	6,924	**2,481**	4,838	**8,255**	11,762

The Group leases properties, plant, machinery and vehicles for operational purposes. Property leases vary in length up to a period of 25 years. Plant, machinery and vehicle leases typically run for periods of up to five years. Commitments relating to discontinued operations included in the above amount to £nil (2013: £4,384,000).

28. Foreign Exchange Rates

The following exchange rates have been used in the translation of the results of foreign operations:

	Closing rate at 30 June 2013	Average rate	Closing rate at 30 June 2014
Danish Krone	8.7146	8.9378	9.3051
Euro	1.1687	1.1981	1.2480
US Dollar	1.5208	1.6259	1.6938

29. Acquisitions

Acquisition of Phycox

On 20 May 2014, the Group acquired certain trade and assets of PSPC Inc. for a maximum total consideration of US$14.2 million. PSPC's principal product is *Phycox*, a patented nutraceutical which competes in the US veterinary joint health supplement market. Additionally, a new product is in the final phase of development. The acquisition enhances our US product portfolio and adds further critical mass to our US business. US$8.5 million of the consideration was payable on completion, US$1.5 million was contingent upon the successful registration of the new product, which occurred in June 2014, and US$4.2 million is contingent on future sales.

	Book value £000	Fair value £000
Recognised amounts of identifiable assets acquired and liabilities assumed		
Identifiable assets		
Property, plant and equipment	701	319
Trade and other receivables	86	86
Inventory	617	436
Identifiable intangible assets	—	7,483
Net identifiable assets	**1,404**	**8,324**
Goodwill		**84**
Total consideration		**8,408**
Satisfied by:		
Cash		5,047
Contingent consideration arrangement — paid on 20 June 2014		891
Contingent consideration		2,470
Total consideration transferred		**8,408**
Net cash outflow arising on acquisition		
Cash consideration		5,047
Contingent consideration arrangement — paid on 20 June 2014		891
		5,938

The fair value adjustments mostly relate to harmonisation with the Group IFRS accounting policies, including the application of fair values on acquisition, principally the recognition of product rights in accordance with IFRS 3. No deferred tax has been recognised on the identifiable intangible assets as no temporary differences arise between the carrying amounts of the assets for financial purposes and the amounts used for taxation purposes (the tax base).

The book value of receivables in the table above represents the gross contractual amounts receivable.

The goodwill of £84,000 arising from the acquisition consists of the assembled workforce and technical expertise. None of the goodwill is expected to be deductible for income tax purposes.

Acquisition related costs (included in operating expenses) amounted to £150,000. *Phycox*'s results are reported within the US Pharmaceuticals Segment.

Contingent consideration of US$1.5 million was paid on 20 June 2014 following the successful registration of the new product. The remaining contingent consideration of US$4.2 million (£2.5 million) represents royalties payable of 10% of future global net sales (with a further 2.5% payable on sales over US$7.5 million, and a further 2.5% payable on sales over US$12.5 million).

Phycox contributed £nil revenue and £nil to the Group's underlying pre-tax profit for the period between the date of acquisition and the balance sheet date. If the acquisition of *Phycox* had been completed on the first date of the financial year, Group revenues for the period would have been £196.4 million and the Group underlying pre-tax profit for continuing operations would have been £40.1 million.

Acquisition of Genitrix Limited

On 1 December 2010, the Group acquired 100% of the share capital of *Genitrix* Limited. The acquisition of *Genitrix* Limited, a veterinary pharmaceuticals company based in Billingshurst, UK, is consistent with our strategy to grow our domestic and international pharmaceutical business.

The remaining £300,000 contingent consideration outstanding for this acquisition was paid in the prior period.

Notes to the Consolidated Financial Statements continued

29. Acquisitions continued

Acquisition of DermaPet Inc.

On 22 October 2010, the Group acquired 100% of the share capital of *DermaPet* Inc., a Florida based business which develops and markets a range of dermatological preparations, including shampoos, conditioners and ear products, for the US and overseas companion animal markets. These veterinary products are marketed and distributed through the same channels as Dechra's current US product portfolio.

During the prior period the Group paid a further US$16,000,000 (£10,033,000) in respect of the acquisition of *DermaPet*, Inc. A payment of US$15,000,000 was made which related to the achievement of a contingent milestone target; the remaining US$1,000,000 related to deferred consideration which was paid on the second anniversary of the completion date.

The maximum further consideration payable is US$6,000,000 of which US$1,000,000 is payable on the fourth anniversary of the completion date (being 22 October 2014). The remaining US$5,000,000 is contingent upon revenue exceeding US$20,000,000 in any rolling 12 month period ending on the sixth anniversary of the completion date.

30. Discontinued Operations

The divestment of the Services Segment was completed on 16 August 2013 for sale proceeds of £91.2 million. The costs to sell were £1.6 million (of which £1.5 million was incurred in the prior year), with an associated tax deduction of £0.1 million.

The Services businesses constitute a reporting segment in accordance with IFRS 8.

The results of the discontinued operations included in the profit for the year are set out below. The Segment was classified as discontinued operations and as held for sale at 30 June 2013. The Consolidated Income Statement has been presented to show the discontinued operations separately from continuing operations.

Profit for the Year from Discontinued Operations

	2014 £000	2013 £000
Revenue	**48,259**	333,244
Cost of sales	**(44,519)**	(303,389)
Gross profit	**3,740**	29,855
Distribution costs	**(1,669)**	(12,540)
Administrative expenses	**(755)**	(6,203)
Non-underlying expenses*	**—**	(38)
Operating profit	**1,316**	11,074
Net finance expense	**—**	(5)
Profit before taxation from operating activities	**1,316**	11,069
Income tax expenses	**(296)**	(2,649)
Profit for the year from operating activities	**1,020**	8,420
Profit on disposal and related expenses	**38,711**	(1,467)
Tax on profit on disposal and related expenses	**(100)**	110
Total profit for the year from discontinued operations attributable to owners of the parent	**39,631**	7,063

* Non-underlying items comprise amortisation of acquired intangibles and rationalisation costs.

See note 10 for the Earnings per Share split between continued and discontinued operations.

30. Discontinued Operations continued

Cash Flows from Discontinued Operations

	2014 £000	2013 £000
Net cash (outflow)/inflow from operating activities	**(14,210)**	1,305
Net cash inflow/(outflow) from investing activities	**89,626**	(810)
Net cash outflow from financing activities (including repayment of intercompany funding)	**–**	(508)

As completion occurred half way through the month, the working capital position on 16 August 2013 was significantly higher than at year end. This increase in the Services Segment working capital affected our operating cash flow before interest and tax payments, generating a cash inflow of £11.5 million at 30 June 2014 compared to £36.9 million at 30 June 2013. Excluding the Services' operating cash outflow of £14.2 million (the majority of which relates to trade and other receivables), cash generated from operations before interest and tax payments for the continuing operations was £25.7 million.

Effect of the disposal on the financial position of the Group

	2014 £000
Goodwill	**(2,621)**
Intangible assets	**(1,049)**
Property, plant and equipment	**(1,677)**
Inventories	**(29,274)**
Trade and other receivables	**(73,330)**
Trade and other payables	**55,569**
Net assets sold	**(52,382)**
Consideration received	**87,500**
Working capital adjustment	**3,702**
Expenses related to disposal (including those accrued in the prior year)	**(1,576)**
Net cash inflow	**89,626**

31. Related Party Transactions

Subsidiaries

The Group's ultimate Parent Company is Dechra Pharmaceuticals PLC. A listing of all principal subsidiaries is shown within the financial statements of the Company on page 178.

Transactions with Key Management Personnel

The details of the remuneration, Long Term Incentive Plans, shareholdings, share options and pension entitlements of individual Directors are included in the Directors' Remuneration Report on pages 86 to 105. The remuneration of key management is disclosed in note 7.

32. Off Balance Sheet Arrangements

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

33. Events after the Reporting Period

In September 2014 the Group refinanced its borrowing facility. Refer to note 20 for further details.

Company Balance Sheet
At 30 June 2014

	Note	2014 £000	2013 £000
Fixed assets			
Investments	iii	**242,065**	251,104
Intangible assets	iv	**3,879**	4,390
Tangible assets	v	**208**	207
		246,152	255,701
Current assets			
Debtors (includes amounts falling due after more than one year of £501,000 (2013: £579,000))	vi	**16,560**	40,978
Cash at bank and in hand		**—**	—
		16,560	40,978
Creditors: amounts falling due within one year	vii	**(48,841)**	(50,331)
Net current liabilities		**(32,281)**	(9,353)
Total assets less current liabilities		**213,871**	246,348
Creditors: amounts falling due after more than one year	vii	**(31,653)**	(103,698)
Net assets		**182,218**	142,650
Capital and reserves			
Called up share capital	x	**877**	872
Share premium account	xi	**124,429**	123,485
Own shares	xi	**(606)**	—
Hedging reserve	xi	**(132)**	—
Profit and loss account	xi	**57,650**	18,293
Total equity shareholders' funds		**182,218**	142,650

The financial statements were approved by the Board of Directors on 8 September 2014 and are signed on its behalf by:

Ian Page
Chief Executive Officer
8 September 2014

Anne-Francoise Nesmes
Chief Financial Officer
8 September 2014

Company number: 3369634

Reconciliation of Movements in Shareholders' Funds

For the year ended 30 June 2014

	2014 £000	2013 £000
At start of year	**142,650**	128,647
Profit for the financial year	**50,320**	23,220
Effective portion of changes in fair value of cash flow hedges	**(273)**	(140)
Cash flow hedges recycled to profit and loss account	**141**	426
Share-based payments charge	**1,616**	821
Dividends paid	**(12,579)**	(11,170)
New shares issued	**949**	846
Own shares purchased	**(606)**	—
At end of year	**182,218**	142,650

Notes to the Company Financial Statements

(i) Principal Accounting Policies of the Company

Accounting Principles

The Company Balance Sheet has been prepared under the historical cost convention except for derivatives which are stated at fair value in accordance with applicable UK accounting standards and the Companies Act 2006.

Basis of Preparation

No profit and loss account is presented for the Company as permitted by Section 408(2) and (3) of the Companies Act 2006. The profit dealt with in the accounts of the Company was £50,320,000 (2013: £23,220,000). Fees paid to KPMG LLP and its associates for audit and non-audit services to the Company itself are not disclosed in the individual financial statements of Dechra Pharmaceuticals PLC because the Group financial statements are required to disclose such fees on a consolidated basis.

Investments

Investments held as fixed assets are stated at cost less any impairment losses. Where the consideration for the acquisition of a subsidiary undertaking includes shares in the Company to which the provisions of section 612 of the Companies Act 2006 apply, cost represents the nominal value of the shares issued together with the fair value of any additional consideration given and costs. Where investments are denominated in foreign currencies they are treated as monetary assets and revalued at each balance sheet date.

Intangible Assets

Product rights that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses. Product rights are amortised over the period of their useful lives.

Derivative Financial Instruments

The Company uses derivative financial instruments to manage its exposure to foreign exchange and interest rate risks. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value of instruments that do not qualify for hedge accounting is recognised immediately in the profit and loss account.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the instrument at the balance sheet date. The fair value of forward exchange contracts and options is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Hedging

Cash Flow Hedges

Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised as profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Cash Flow Statement

As the ultimate holding company of the Group, the Company has relied upon the exemption in Financial Reporting Standard (FRS) 1 (Revised) not to present a cash flow statement as part of its financial statements.

(i) **Principal Accounting Policies of the Company** continued

Dividends

Dividends are recognised in the period in which they are approved by the Company's shareholders or, in the case of an interim dividend, when the dividend is paid. Dividends receivable from subsidiaries are recognised when either received in cash or applied to reduce a creditor balance with the subsidiary.

Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Related Parties

Under FRS 8 the Company is exempt from the requirement to disclose related party transactions with other Group undertakings as they are all wholly owned within the Group and are included in the Dechra Pharmaceuticals PLC Consolidated Financial Statements.

Transactions with Key Management Personnel

There were no material transactions with key management personnel except for those relating to remuneration (see notes 7 and 31 to the Consolidated Financial Statements) and shareholdings.

Transactions with Other Related Parties

There are no controlling shareholders of the Company. There have been no material transactions with the shareholders of the Company.

Employee Benefits

(i) Pensions

The Company operates a Group stakeholder personal pension scheme for certain employees. Obligations for contributions are recognised as an expense in the profit and loss account as incurred.

(ii) Share-based Payment Transactions

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

The fair value of shares or options granted is recognised as an employee expense on a straight-line basis in the profit and loss account with a corresponding movement in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares or options (the vesting period). The fair value of the shares or options granted is measured using a valuation model, taking into account the terms and conditions upon which the shares or options were granted. The amount recognised as an expense in the profit and loss account is adjusted to take into account an estimate of the number of shares or options that are expected to vest together with an adjustment to reflect the number of shares or options that actually do vest except where forfeiture is only due to market-based conditions not being achieved.

The fair values of grants under the Long Term Incentive Plan have been determined using the Monte Carlo simulation model. The fair values of options granted under all other share option schemes have been determined using the Black–Scholes option pricing model.

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

Where the Company grants options over its own shares to the employees of its subsidiaries it recharges the expense to those subsidiaries.

Notes to the Company Financial Statements continued

(i) Principal Accounting Policies of the Company continued

Foreign Currency

Foreign currency transactions are translated into Sterling using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities are translated at the closing rate at the reporting date. Foreign exchange gains and losses are recognised in the profit and loss account.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply and have been substantively enacted in the periods in which the timing differences reverse and is provided in respect of all timing differences which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 'Deferred Tax'.

Financial Guarantee Contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(ii) Directors and Employees

Total emoluments of Directors (including pension contributions) amounted to £3,061,000 (2013: £2,088,000). Information relating to Directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 86 to 105.

(iii) Fixed Asset Investments

	Shares in subsidiary undertakings £000
Cost	
At 1 July 2013	251,104
Additions	3,205
At 30 June 2014	**254,309**
Impairment	
At 1 July 2013	—
Charge for the period	12,244
At 30 June 2014	**12,244**
Net book value	
At 30 June 2014	**242,065**
At 30 June 2013	251,104

A list of principal subsidiary undertakings is given in note (xii).

During the course of the year management transferred the trade and assets of certain operating subsidiaries to other subsidiaries within the Group all of which are wholly owned. On 16 August 2013, the entire share capital of National Veterinary Services Limited was sold. This resulted in management assessing the carrying value of its investments and an impairment of £12,244,000 was recognised.

(iv) Intangible Assets

	Intangible assets £000
Cost	
At 1 July 2013	5,114
At 30 June 2014	**5,114**
Amortisation	
At 1 July 2013	724
Charge for the year	511
At 30 June 2014	**1,235**
Net book value	
At 30 June 2014	**3,879**
At 30 June 2013	4,390

(v) Tangible Assets

	Tangible assets £000
Cost	
At 1 July 2013	223
Additions	51
At 30 June 2014	**274**
Depreciation	
At 1 July 2013	16
Charge for the year	50
At 30 June 2014	**66**
Net book value	
At 30 June 2014	**208**
At 30 June 2013	207

(vi) Debtors

	2014 £000	2013 £000
Amounts owed by subsidiary undertakings	**14,072**	36,119
Group relief receivable	**1,975**	3,951
Deferred taxation (see note (ix))	**501**	579
Other debtors	**11**	176
Prepayments and accrued income	**1**	153
	16,560	40,978

Included in debtors are amounts of £501,000 (2013: £579,000) due after more than one year relating to deferred tax assets. Of the amounts owed by subsidiary undertakings, £nil is due after more than one year (2013: £nil).

Notes to the Company Financial Statements continued

(vii) Creditors

	Falling due within one year	
	2014 £000	2013 £000
Bank loans and overdrafts (see note (viii))	**3,485**	15,221
Amounts due to subsidiary undertakings	**42,642**	32,226
Derivative financial instruments	**161**	15
Other taxation and social security	**129**	105
Accruals and deferred income	**2,424**	2,764
	48,841	50,331

In accordance with FRS 21 'Events after the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2014 of 10.65p per share (2013: 9.66p per share) has not been accrued for in these financial statements. It will be shown in the financial statements for the year ending 30 June 2015. The total cost of the proposed final dividend is £9,341,000 (2013: £8,419,000).

	Falling due after more than one year	
	2014 £000	2013 £000
Bank loans (see note (viii))	**31,653**	103,698
	31,653	103,698

(viii) Borrowings

	2014 £000	2013 £000
Borrowings due within one year		
Bank overdraft	**3,485**	5,809
Bank loan	**—**	10,000
Arrangement fees netted off	**—**	(588)
	3,485	15,221
Borrowings due after more than one year		
Aggregate bank loan instalments repayable:		
— between one and two years	**32,039**	10,000
— between two and five years	**—**	95,073
	32,039	105,073
Arrangement fees netted off	**(386)**	(1,375)
	31,653	103,698
Total borrowings	**35,138**	118,919

The current revolving credit and overdraft facilities are secured by a fixed and floating charge on the assets of the Group. Interest is charged at 2.5% over LIBOR on the bank loan and revolving credit facility and 2.5% over base rate on the bank overdraft. No covenants have been breached during the year ended 30 June 2014. No interest has been capitalised during the year (2013: £nil).

In September 2014, the Company refinanced its existing bank facility. The Company's revised borrowing facility comprises a £90 million revolving credit facility and a £30.0 million Accordion facility committed until September 2019. Refer to note 20 to the Consolidated Financial Statements for further details.

The Company guarantees certain borrowings of other Group companies, which at 30 June 2014 amounted to £110,000 (2013: £480,000).

(ix) Deferred Tax

	£000
At 1 July 2013	579
Amounts recognised in profit and loss	(107)
Amounts recognised in equity	29
At 30 June 2014 (included in debtors)	501

The amounts provided for deferred taxation at 20% (2013: 23%) are as follows:

	2014 £000	2013 £000
Short term timing differences	**503**	576
Accelerated capital allowances	**(2)**	3
	501	579

(x) Called up Share Capital

		Ordinary shares of 1p each
Issued share capital	£000	No.
Allotted, called up and fully paid at 1 July 2013	872	87,157,444
New shares issued	5	555,120
Allotted, called up and fully paid at 30 June 2014	**877**	**87,712,564**

Details of new ordinary shares issued following the exercise of options under the Long Term Incentive Plan and the Approved, Unapproved and SAYE Share Option Schemes are shown in note 25 to the Consolidated Financial Statements.

Share Options

Details of outstanding share options over ordinary shares of 1p at 30 June 2014 under the various Group share option schemes are shown in note 25 to the Consolidated Financial Statements.

(xi) Reserves

	Share premium account £000	Own shares £000	Hedging reserve £000	Profit and loss account £000
At 1 July 2013	123,485	—	—	18,293
New shares issued	944	—	—	—
Own shares purchased	—	(606)	—	—
Profit for the financial year	—	—	—	50,320
Effective portion of changes in fair value of cash flow hedges	—	—	(273)	—
Cash flow hedges recycled to profit and loss account	—	—	141	—
Dividend (see note 9 to the consolidated financial statements)	—	—	—	(12,579)
Share-based payments charge	—	—	—	1,616
At 30 June 2014	**124,429**	**(606)**	**(132)**	**57,650**

The net assets of the Employee Benefit Trust have been included in the Company balance sheet in accordance with FRS. Refer to note 24 to the Consolidated Financial Statements for details of the shares held by the Employee Benefit Trust.

Notes to the Company Financial Statements continued

(xii) Subsidiary Undertakings

Dechra Pharmaceuticals PLC is the ultimate parent and controlling party of the Group.

The principal subsidiary undertakings of the Company, all of which are wholly owned, are:

Company	Country of Incorporation	Principal Activity
Operating subsidiaries		
Albrecht GmbH∞	Germany	Marketer of veterinary pharmaceuticals and distributor of veterinary pharmaceuticals and equipment
Dechra LimitedΩ	England & Wales	Developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals
Dechra Development LLC**	USA	Regulatory and product development
Dechra Veterinary Products Inc**	Canada	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products A/S	Denmark	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products OY#	Finland	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products SAS#	France	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products Srl**	Italy	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products AS#	Norway	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products SLU#	Spain	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products AB#	Sweden	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products BV#	The Netherlands	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products Limited#	England & Wales	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products LLC**	USA	Marketer of veterinary pharmaceuticals and pet diets
Eurovet NV∞	Belgium	Marketer of veterinary pharmaceuticals and pet diets
Eurovet Animal Health BV	The Netherlands	Manufacturer of veterinary pharmaceuticals and marketer of veterinary pharmaceuticals and pet diets
Eurovet Animal Health Limited#	England & Wales	Marketer of veterinary pharmaceuticals and pet diets
National Veterinary Services Limited**	England & Wales	Wholesaler and provider of laboratory services***
Scanimal Health ApS∞	Denmark	Marketer of veterinary pharmaceuticals and pet diets
Other subsidiaries		
Anglian Manufacturing Chemists Limited‡	England & Wales	Non-trading
Anglian Pharma Manufacturing Limited†	England & Wales	Holding Company
Anglian Pharma Limited	England & Wales	Holding Company
Arnolds Veterinary Products Limited*	England & Wales	Non-trading
Broomco 4263 Limited*	England & Wales	Non-trading
Cambridge Specialist Laboratory Services Limited§	England & Wales	Non-trading
Dales Pharmaceuticals Limited*	England & Wales	Non-trading
Dechra Finance Limited	England & Wales	Non-trading
Dechra Investments Limited	England & Wales	Holding Company
Farvet Laboratories BV∞	The Netherlands	Non-trading
Leeds Veterinary Laboratories Limited	England & Wales	Non-trading
North Western Laboratories Limited	England & Wales	Holding Company
Veneto Limited	England & Wales	Holding Company
DermaPet, Inc.¶	USA	Non-trading

* 100% of ordinary share capital held by Veneto Limited.
Ω 100% of ordinary share capital held by Dechra Investments Limited.
§ 100% of ordinary share capital held by North Western Laboratories Limited.
† 100% of ordinary share capital held by Anglian Pharma Limited.
‡ 100% of ordinary share capital held by Anglian Pharma Manufacturing Limited.
# 100% of ordinary share capital held by Dechra Veterinary Products A/S.
¶ 100% of ordinary share capital held by Dechra Veterinary Products LLC.
** 100% of ordinary share capital held by Dechra Limited.
∞ 100% of ordinary share capital held by *Eurovet* Animal Health B.V.
*** Sale of subsidiary completed on 16 August 2013. Refer to note 30 to the Consolidated Financial Statements for details.

Financial History

	2014 £000	2013 £000	2012 (Restated)† £000	2012 £000	2011 £000	2010 £000
Consolidated income statement						
Revenue	**193,571**	189,176	124,330	426,041	389,237	369,369
Underlying operating profit	**42,168**	39,108	25,545	36,601	31,823	28,190
Underlying profit after taxation	**31,849**	25,464	16,029	24,302	22,748	19,437
Underlying earnings per share						
— basic (pence)	**37.61**	38.98	—	32.37*	31.53*	27.09*
— diluted (pence)	**37.48**	38.71	—	32.27*	31.43*	26.99*
Continuing underlying earnings per share						
— basic (pence)	**36.45**	29.27	21.35*	—	—	—
— diluted (pence)	**36.32**	29.07	21.28*	—	—	—
Dividend per share (pence)	**15.40**	14.00	12.27*	12.27*	11.12*	9.64*
Consolidated statement of financial position						
Non-current assets	**214,440**	235,670	237,132	242,592	132,819	88,044
Current assets	**86,334**	89,672‡	86,863‡	161,829	137,549	117,483
Current liabilities	**(35,715)**	(49,558)‡	(48,217)‡	(103,461)	(88,952)	(89,041)
Non-current liabilities	**(60,253)**	(136,991)	(147,278)	(147,278)	(83,083)	(30,258)
Net assets held for sale	**—**	35,823	25,182	—	—	—
Shareholders' funds	**204,806**	174,616	153,682	153,682	98,333	86,228
Consolidated cash flow						
Net cash inflow from operating activities	**11,472**	36,865	—	19,242	16,754	17,324
Net cash outflow from investing activities	**76,575**	(19,368)	—	(120,344)	(36,178)	(1,715)
Net cash (outflow)/inflow from financing activities	**(92,148)**	(18,266)	—	103,708	18,867	(10,821)

* Restated to reflect the impact of the bonus element of the Rights Issue.

† Restated to reflect the Services Segment as discontinued operations.

‡ Excluding net assets held for sale.

Glossary

The following is a glossary of a number of the terms and acronyms which can be found within this document:

API
Active Principal Ingredient

APP
Actinobacillis pleuropneumonia (APP) is a bacterial infection that affects the respiratory system of pigs

APSP
Approved Performance Share Plan

Bioequivalence
The demonstration that the proposed formulation has the same biological effects as the pioneer product to which it is being compared. This is usually demonstrated by comparing blood concentrations of the active over time, but can be compared using a clinical endpoint (e.g. lowering of a worm count) for drugs that are not absorbed or for which blood levels cannot be determined

CAGR
Compound Annual Growth Rate

CAP
Companion Animal Products

CapEx
Capital Expenditure

CE
Continuing Education

CER
Constant Exchange Rate

CMC
Chemistry and Manufacturing Controls

Cortisol
A hormone which is made by the adrenal glands. Its production is increased during episodes of stress and it has many effects on the body. It helps regulate blood pressure, the immune system and helps balance the effect of insulin to keep the blood sugar at normal levels

CPD
Continuous Professional Development

CSOP
Company Share Option Plan

Cushing's Syndrome
A condition caused by excess cortisol (see above) and is named after the physician who first described the condition in humans in the early twentieth century

Dechra Values or Values
Dedication, Enjoyment, Courage, Honesty, Relationships and Ambition

DPM
Dechra Pharmaceuticals Manufacturing

DVP EU
Dechra Veterinary Products EU

DVP US
Dechra Veterinary Products US

Dysbacteriosis
A microbial imbalance on or inside the body

EBIT
Earnings before interest and tax

EBITDA
Earnings before interest, tax, depreciation and amortisation

E.Coli
Escherichia coli is a bacterium of the genus Escherichia that is commonly found in the lower intestine of warm-blooded organisms

EPS
Earnings Per Share

Euthyroid
Euthyroid is the state of having normal thyroid gland function

Executive Directors
The Executive Directors of the Company, currently Ian Page, Anne-Francoise Nesmes and Tony Griffin

FAP
Food producing Animal Products

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

FRC
Financial Reporting Council

FRS
Financial Reporting Standards

FTSE250/350 Index
An index comprising the 101st to 350th largest companies listed on the London Stock Exchange in terms of their market capitalisation

FTSE Small Cap Index
An index comprising the 351st to 619th largest listed companies on the London Stock Exchange in terms of their market capitalisation

GAAP
Generally Accepted Accounting Practices

GHG
Greenhouse Gas

HGV
Heavy Goods Vehicle

Hyperthyroidism
Occurs when the thyroid glands produce excessive amounts of thyroid hormone. This causes an increase in the animal's metabolism (the rate at which energy is utilised)

IAS
International Accounting Standards

IFRS
International Financial Reporting Standards

Intertrigo
Refers to a bacterial, fungal or viral infection that has developed at the site of broken skin due to inflammation of body folds. This infection is common in dogs with folds, such as Pugs or Shar Peis

KPI
Key Performance Indicator

LIBOR
The London Inter-Bank Offered Rate

LTAFR
Lost Time Accident Frequency Rate

LTIP
Long Term Incentive Plan

Malassezia
Yeasts that cause a secondary inflammatory skin disease. Malassezia is often found in otitis externa

MHRA
Medicines and Healthcare products Regulatory Agency; an executive agency of the Department of Health

Maximum residue limit (MRL)
The maximum acceptable concentration of a substance that may be found in a food product obtained from an animal that has received a veterinary medicine

NADA
New Animal Drug Application

Non-Executive Directors
The Non-Executive Directors of the Company, currently Michael Redmond, Dr Chris Richards, Julian Heslop and Ishbel Macpherson

NSAID
Non-Steroidal Anti-Inflammatory Drug; essentially drugs which relieve pain, swelling, stiffness and inflammation. *Equipalazone* is the leading NSAID for the treatment of musculoskeletal disorders in the horse

Ordinary Shares
An ordinary share of 1 pence in the share capital of the Company

Otitis Externa
A condition which causes inflammation of the external ear canal (the tube between the outer ear and the ear drum)

PDRA
Dechra's Product Development and Regulatory Affairs team

QC
Quality Control

RIDDOR
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations

Rights Issue
The three for ten rights issue of 20,040,653 shares, details of which are set out in the prospectus of the Company dated 25 April 2012

ROCE
Return On Capital Employed

ROI
Return On Investment

RPI
Retail Price Index

SAYE
Save As You Earn Share Scheme

SET
Senior Executive Team

S.suis
Streptococcus suis is a bacterial infection which occurs primarily in nursing or recently weaned pigs

Staphylococcal Infections
Communicable conditions caused by the Staphylococcus type of bacteria and generally characterised by pyoderma or the formation of abscesses

Surface Pyoderma
Pyoderma is the medical term used to denote infections of the skin caused by bacteria. Surface Pyoderma is a bacterial infection which is confined to the surface of the skin; one of the commonest types is known as Pyotraumatic Dermatitis (acute moist dermatitis, or 'hot spots'). It is typified by localised itching, moist reddened skin patches and ulcerated lesions

TSR
Total Shareholder Return

VCA
Veterinary Centers of America

VMD
Veterinary Medicines Directorate

Shareholder Information

Financial Calendar

Interim Management Statement	24 October 2014
2014 Annual General Meeting	24 October 2014
Final Dividend Ex Div Date	6 November 2014
Final Dividend Record Date	7 November 2014
Final Dividend Payment Date	21 November 2014

Annual General Meeting

The 2014 Annual General Meeting of the Company will be held at 10.00 am on 24 October 2014 at Investec Bank plc, 2 Gresham Street, London EC2V 7QP. The notice of meeting (the Notice), which includes special business to be transacted at the Annual General Meeting together with an explanation of the resolutions to be considered at the meeting, is made available on the Company website or mailed to shareholders, if they have elected to receive the Notice in paper format.

Share History

Dechra floated on the London Stock Exchange in September 2000 at £1.20 per share, with a market capitalisation of £60 million.

In relation to the acquisition of VetXX Holdings A/S, on 15 January 2008, Dechra undertook a placing and open offer on the basis of 11 Open Offer shares for every 50 existing shares held on 10 December 2007 at an issue price of 303 pence. On 9 January 2008 11,624,544 shares were issued.

On 5 April 2012, a Rights Issue was announced on the basis of 3 new ordinary shares for every existing 10 shares held on 23 April 2012 at a subscription price of £3.00 per share. The Rights Issue resulted in 20,040,653 shares being issued with dealings commencing on 16 May 2012.

Company Website

The Dechra website (www.dechra.com) is the best source of useful and up-to-date information about Dechra and its activities, including the latest news, financial and product information to help improve understanding of our business. Additionally, the terms of reference of all our Committees, Articles of Association, our Values and a number of our internal policies are published on the website.

Visit us at our website
www.dechra.com

Electronic Communications

Shareholders now have the opportunity to receive shareholder communications electronically, e.g. Annual Reports, Notice of the Annual General Meeting and Proxy Forms. You can elect to receive email notifications of shareholder communications by registering at www.shareview.co.uk where you can also set up a bank mandate to receive dividends directly to your bank account and to submit proxy votes for shareholder meetings. Receiving the Company's communications electronically allows the Company to communicate with its shareholders in a more environmentally friendly, cost effective and timely manner.

Registrar

Dechra's Registrar is Equiniti Limited.

Equiniti should be contacted for any matters relating to your shareholding, including:

- Notification of change in name and address
- Enquiries about dividend payments
- Submission of proxy form for voting at the Annual General Meeting

Equiniti offers a facility whereby shareholders are able to access their shareholdings in Dechra via their website (www.shareview.co.uk).

Alternatively Equiniti can be contacted at:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Registrars' Shareholder Helpline for Dechra: 0871 384 2030 or +44(0) 121 415 7047, if calling from the outside of the UK.

Please have your Shareholder Reference Number to hand whenever you contact the Registrar; this can be found on your share certificate.

Share Dealing Service

Equiniti Financial Services Limited offer a Share Dealing Service, to buy or sell shares. Further information can be obtained from www.shareview.co.uk/dealing or by telephoning 0845 603 7037.

	Telephone share dealing	Internet share dealing	Postal share dealing
Fee (on value of transaction)			
up to £50,000	1.5%	1.5%	1.75%
over £50,000	0.2%	0.2%	0.5%
Minimum charge	£50.00	£45.00	£50.00
Stamp duty charge (purchases only)	0.5%	0.5%	0.5%

Equiniti Financial Services Limited and its agents are authorised and regulated by the Financial Conduct Authority.

Please note that the price of shares can go down as well as up, and you are not guaranteed to get back the original amount you originally invested. If you are in any doubt you should contact an independent financial adviser.

Warning to Shareholders

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. Previously we were alerted by some of our shareholders to cold calls which they had received. The callers purport to represent various entities, including Drexel-Bearns, a US based firm. The callers stated that they were seeking to gain control of investor shareholdings held in the Company and/or personal financial information. We believe these to be boiler room scams.

These types of calls are typically from overseas based 'brokers' who target UK shareholders and are commonly referred to as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive. While high profits are promised, those who buy or sell shares in this way usually lose their money.

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

- check the FCA Register at www.fca.org.uk/firms/systems-reporting/register to ensure they are authorised;
- confirm that the firm is genuine by asking them for their firm reference number and contact details. Always use the details on the FCA Register to contact the firm. You should only access the Register from the FCA website at www.fca.org.uk;
- call the FCA Consumer Helpline on 0800 111 6786 if there are no contact details on the Register or you are told they are out of date;
- make additional checks to confirm that you are dealing with the firm direct for example checking the details on the firm's website with directory enquiries or Companies House;
- search the FCA unauthorised firms list; and
- remember: if it sounds too good to be true, it probably is!

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme if things go wrong.

If you are approached about a share scam you should tell the FCA by contacting their Consumer Helpline on 0800 111 678. If you have been offered, bought or sold shares you can use the share fraud reporting form at http://www.fca.org.uk/consumers/scams/investment-scams/share-fraud-and-boiler-room-scams/reporting-form.

If you have already paid money to share fraudsters or suspect fraud you should contact Action Fraud on 0300 123 2040.

Protecting your Identity

Suggestions for safeguarding your shares:

- ensure all your share certificates are kept in a safe place or hold your shares electronically in CREST via a nominee;
- keep all correspondence relating to your shares in a safe place or destroy the correspondence by shredding;
- notify the Registrar of a change of address in writing or via their website (as detailed on page 182);
- consider having your dividend paid directly into your bank account to eliminate the risk of a lost dividend cheque;
- notify the Registrar of bank account detail changes in writing or via their website; and
- if you decide to sell or buy shares use only brokers registered in your own country or the UK.

Advisers

Auditor
KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Stockbroker & Financial Advisers
Investec Bank plc
2 Gresham Street
London
EC2V 7QP

Lawyers
DLA Piper UK LLP
Victoria Square House
Victoria Square
Birmingham
B2 4DL

Registrars
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Financial PR
TooleyStreet Communications
Regency Court
68 Caroline Street
Birmingham
B3 1UG

Principal Bankers
Lloyds Bank plc
2nd Floor
125 Colmore Row
Birmingham
B3 3SF

Principal Bankers continued
Barclays Bank PLC
One Snowhill
Snow Hill Queensway
Birmingham
B3 2WN

Svenska Handelsbanken AB (publ)
Island Reach
Festival Way
Stoke-on-Trent
ST1 5SW

HSBC Bank plc
Midlands Corporate Banking Centre
4th Floor
120 Edmund Street
Birmingham
B3 2QZ

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we think. we design. we publish.
www.jonesandpalmer.co.uk

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

T: +44 (0) 1606 814730
F: +44 (0) 1606 814731
E: corporate.enquiries@dechra.com

www.dechra.com

Stock Code: DPH