Dechra
Pharmaceuticals PLC

Annual Report and Accounts

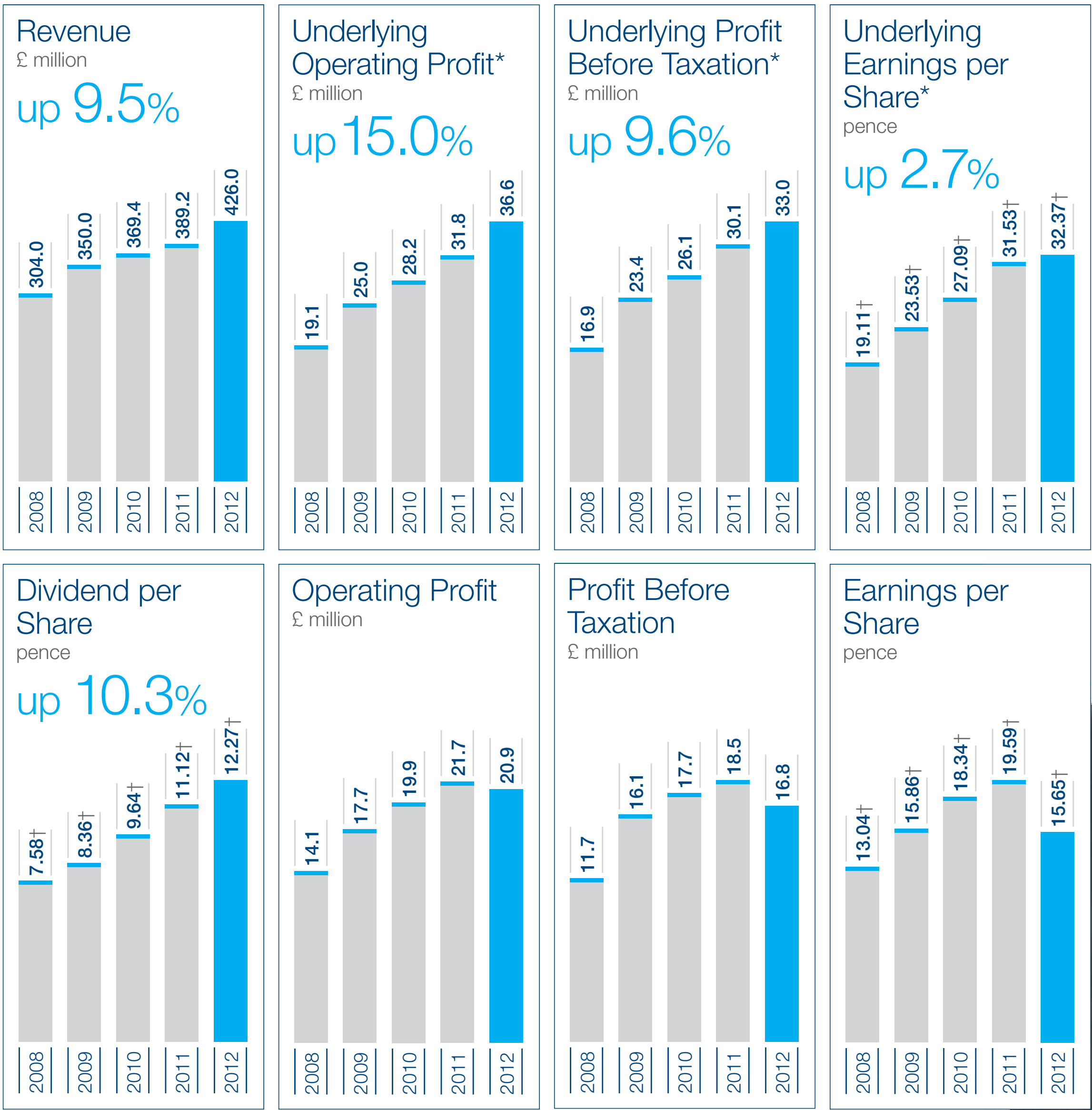
for the year ended 30 June 2012

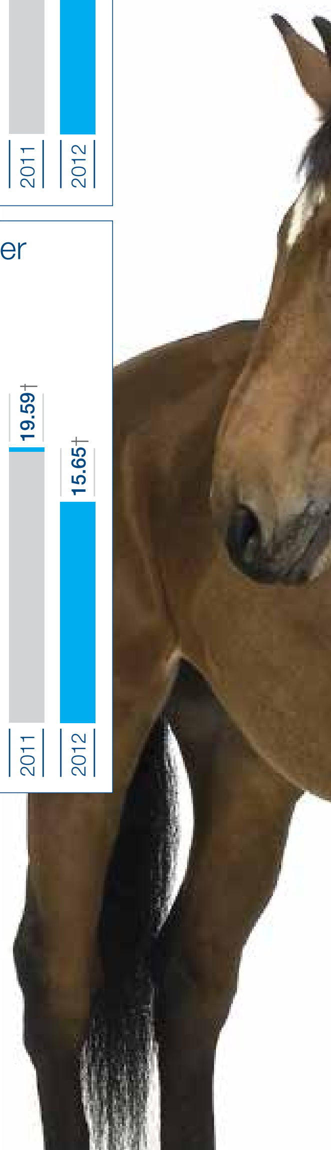
Stock code: DPH

The Evolution of Dechra

Dechra is an international veterinary pharmaceutical business. Our expertise is in the development, manufacturing, distribution, sales and marketing of high quality products exclusively for veterinarians worldwide

Highlights





* Non-underlying items comprise amortisation of acquired intangibles, acquisition expenses, rationalisation costs, payments to acquire technology for the research and development programme, impairment charges, loss on extinguishment of debt and unwinding of discounts on deferred and contingent consideration (see notes 4 and 5).

† Adjusted for the bonus element of the Rights Issue.

Forward-Looking Statements: This Annual Report contains certain forward-looking statements which reflect the knowledge and information available to the Company during preparation and up to the publication of these Accounts. By their very nature, these statements depend upon circumstances and relate to events that may occur in the future and thereby involving a degree of uncertainty. Therefore, nothing in this publication should be construed as a profit forecast by the Company.

Delivering Growth

1 July 2000 to 30 June 2001

September 2000
Dechra listed on the London Stock Exchange at 120 pence per share, with a market capitalisation of £60 million

December 2000
NVS's semi automatic picking system commissioned at a cost of £0.5 million

1 July 2001 to 30 June 2002

December 2001
Vetoryl® launched in the UK

April 2002
Acquired North Western Laboratories and Cambridge Specialist Laboratory Services for a consideration of £2.75 million, enabling Dechra to extend its service offering to the veterinary profession

April 2002
Felimazole® launched in the UK

May 2002
Acquired Anglian Pharma Plc for a consideration of £2.5 million which more than doubled Dechra's contract manufacturing revenues

1 July 2002 to 30 June 2003

April 2003
North Western Laboratories rebranded to NationWide Laboratories

May 2003
Entered into a sub-licence agreement with *Bioenvision*® Inc to develop *Vetoryl* for future marketing in the USA and Canada

1 July 2003 to 30 June 2004

December 2003
Entered into a European marketing agreement with Janssen Animal Health, allowing Janssen full marketing and distribution rights to *Felimazole* and *Vetoryl* in mainland Europe

1 July 2004 to 30 June 2005

November 2004
Granted a full EU licence for *Felimazole* and granted a UK licence for a new 2.5mg *Felimazole* tablet

April 2005
Granted a range extension for a 30mg *Vetoryl* capsule

April 2005
Opened a US operation based in Kansas City

April 2005
Acquired *Vetivex*®, a licensed veterinary fluid therapy product, for £0.8 million

1 July 2005 to 30 June 2006

July 2005
Received approval to market *Vetoryl* in 19 major European countries

June 2006
Signed a development and marketing agreement for *Vetoryl* in Japan with Kyoritsu Seiyaku

	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006
Revenue £ million	156.4	170.2	179.3	186.8	Revenue* 210.3	232.5
Underlying Profit Before Taxation £ million	5.8	7.3	6.7	8.1	9.7	11.0
Dividend per Share pence	3.44†	3.78†	3.78†	4.32†	4.78†	5.73†

* From this point forward reported under IFRS.

1 July 2006 to 30 June 2007

December 2006
Acquired the intellectual property for *Equidone*® Gel

April 2007
Acquired Leeds Veterinary Laboratories for £0.75 million

May 2007
Secured a long term trademark licence and marketing agreement with Pharmaderm Animal Health for a consideration of US$5.0 million, to supply a range of dermatological, ophthalmic and optic products to the US veterinary market

Revenue £ million **253.8**
Underlying Profit Before Taxation £ million **12.7**
Dividend per Share pence **6.89**†

1 July 2007 to 30 June 2008

January 2008
Acquired *VetXX*® Holding A/S, a leading developer, producer and marketer of companion animal products, for a total consideration of £61.7 million

Revenue £ million **304.4**
Underlying Profit Before Taxation £ million **16.9**
Dividend per Share pence **7.58**†

1 July 2008 to 30 June 2009

December 2008
VetXX integrated and rebranded Dechra Veterinary Products

December 2008
Received FDA approval for *Vetoryl* in the USA

May 2009
New therapeutic canine diet developed and marketed to aid treatment of osteoarthritis in dogs, known as *Specific*® CJD

June 2009
Received approval to market *Felimazole* in USA

Revenue £ million **350.0**
Underlying Profit Before Taxation £ million **23.4**
Dividend per Share pence **8.36**†

1 July 2009 to 30 June 2010

November 2009
Achieved mutual recognition of *Malaseb*® in 17 European countries

February 2010
DVP UK's logistics and finance function integrated into a central logistic and shared service centre in Uldum, Denmark

Revenue £ million **369.4**
Underlying Profit Before Taxation £ million **26.1**
Dividend per Share pence **9.64**†

1 July 2010 to 30 June 2011

October 2010
Acquired *DermaPet*® Inc., a Florida based dermatological business, for a potential consideration of US$64.0 million. The acquisition strengthened Dechra's position as a leader in the worldwide veterinary dermatological market

December 2010
Acquired *Genitrix*® Limited, a privately owned veterinary company with a range of products complementary to Dechra's, for a potential total consideration of £6.4 million

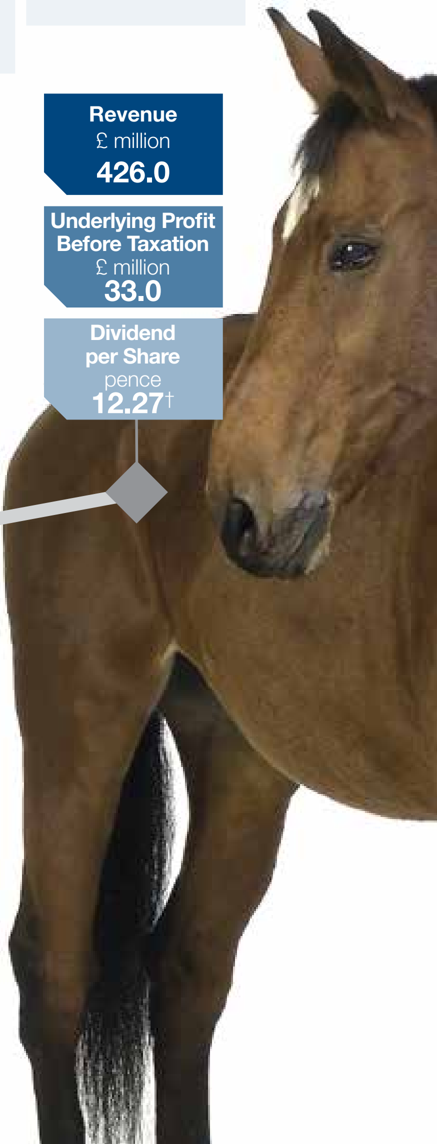
Revenue £ million **389.2**
Underlying Profit Before Taxation £ million **30.1**
Dividend per Share pence **11.12**†

1 July 2011 to 30 June 2012

January 2012
Acquired the worldwide rights (excluding Canada) to *HY-50*® for a cash consideration of 8.03 million Canadian dollars

May 2012
Acquired *Eurovet*® Animal Health B.V., an expert in developing, registering, producing and marketing added value, companion and farm animal veterinary pharmaceutical products, for a total cash consideration of €135 million

Revenue £ million **426.0**
Underlying Profit Before Taxation £ million **33.0**
Dividend per Share pence **12.27**†



† Adjusted for the bonus element of the Rights Issue.

Contents

Our Strategy

- To develop an international high growth, cash generative, specialist veterinary products business; and
- To sustain growth and innovate in our Services business

Our Highlights

- €135 million acquisition of Eurovet® Animal Health B.V. ("*Eurovet*") completed, funded by successful Rights Issue and debt re-financing
- Strong performance from Pharmaceuticals in both Europe and the USA
- *NVS* operating margin stabilised in second half
- Investment in product pipeline increased by 10%
- Strong second half cash inflow resulted in a 92% full year conversion rate

Our Key Strengths

- Unique Products
- People and Expertise
- Strategic Focus
- International Footprint
- Strong Financial Platform
- Development Pipeline
- Strong Market Position
- Growing Markets
- Customer Satisfaction
- Innovation

Our Business

Directors' Report: **Our Performance**

Directors' Report: **Our Governance**

Our Accounts

Shareholder Information

Our Business

Group at a Glance

Pharmaceuticals

European Pharmaceuticals

- **Dechra Veterinary Products EU ("DVP EU")**

  Sales, marketing and technical support of Dechra's branded veterinary products to the veterinary profession in Europe

- **Dechra Manufacturing**

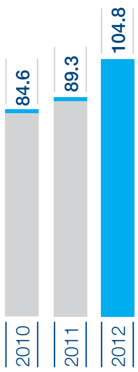
  Licensed manufacturer of veterinary and human pharmaceuticals for DVP EU and third party customers

US Pharmaceuticals

- **Dechra Veterinary Products US ("DVP US")**

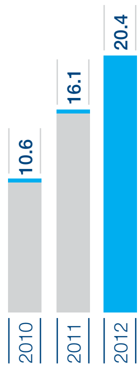
  Sales, marketing and technical support of Dechra's branded endocrine, ophthalmic, dermatological and equine products to the veterinary profession in the USA

Revenue
£ million
up 17.3%

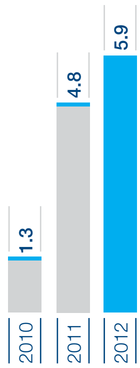


Operating Profit
£ million
up 28.4%

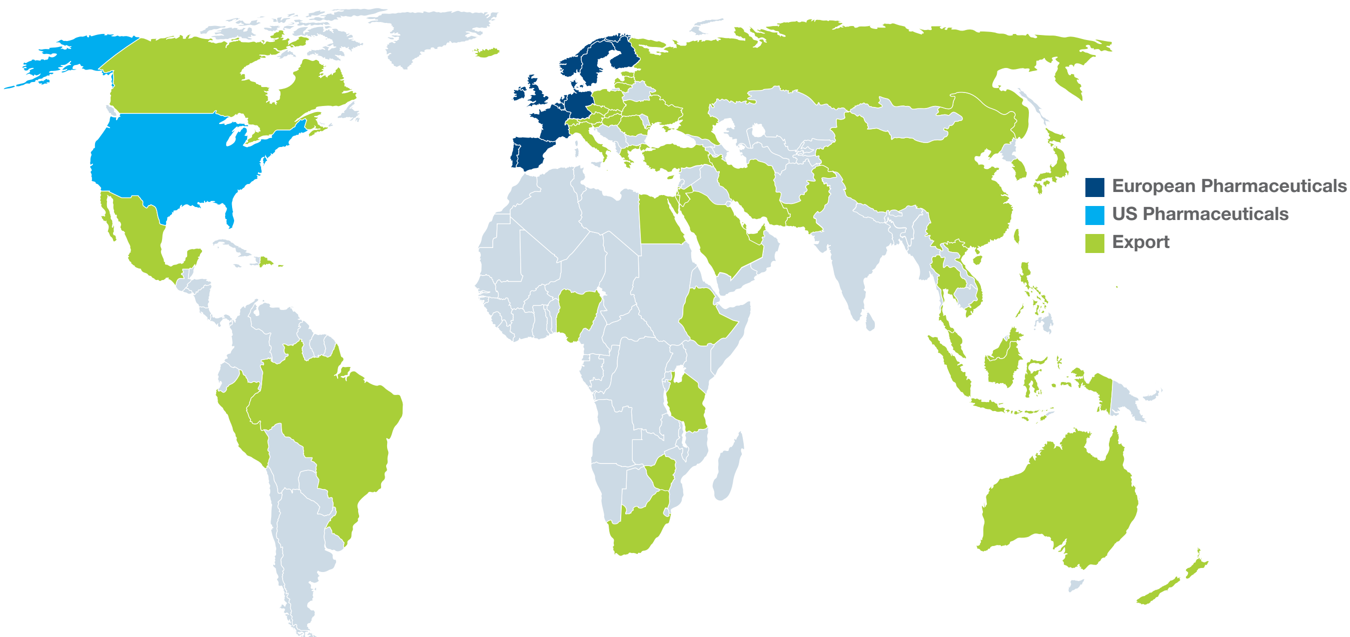
Revenue
£ million
up 26.4%



Operating Profit
£ million
up 21.2%



Where we Operate



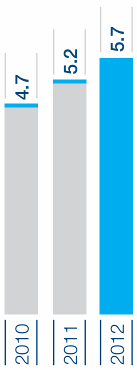
Product Development

The Product Development and Regulatory Team develop and license Dechra's own branded veterinary product portfolio of novel and generic pharmaceuticals and specialist pet diets

Research and Development Spend

£ million

up 9.8%



Services

- **National Veterinary Services ("NVS®")**
  UK market leader in the supply of pharmaceuticals, instruments, consumables, pet products and added value services to the veterinary profession
- **Dechra Laboratory Services ("DLS")**
  Multi-disciplined independent commercial veterinary laboratory
- **Dechra Specialist Laboratories ("DSL")**
  Primary and secondary referral specialist veterinary immunoassay laboratory

Revenue

£ million

up 6.6%

Operating Profit

£ million

Our product pipeline

go to page 18

Our Business
Directors' Report Our Performance
Directors' Report Our Governance
Our Accounts
Shareholder Information

Our Business Model

Key to our Business Model

Reporting Segments | Dechra Activity | Customers | Partners

PRODUCT DEVELOPMENT AND REGULATORY AFFAIRS

Provides products for the Group through in-house development of novel and generic pharmaceutical products, and specialist branded pet diets. Further products are acquired through in-licensing and marketing contracts with third party suppliers

EUROPEAN PHARMACEUTICALS

Dechra Manufacturing

Manufactures the majority of our own branded pharmaceutical products which are marketed through DVP EU and DVP US. Approximately 40% of manufacturing revenues are from third party toll manufacturing

DVP EU Sales and Marketing and Technical Support

Markets and sells our branded veterinary products within 13 European countries and manages the relationships with our worldwide marketing partners

US PHARMACEUTICALS

DVP US Sales and Marketing and Technical Support

Markets and sells our own veterinary products across the USA and distributes a number of our dermatological products to Export Partners worldwide

SERVICES

NVS Veterinary Wholesaler

Distributes a range of over 14,000 products directly to veterinary practices utilising its own vehicle fleet. *NVS* supplies pharmaceuticals, pet products, consumables and accessories and has also developed a range of IT solutions for veterinary practices

Dechra Laboratory Services and Dechra Specialist Laboratories

Our laboratory businesses are first and second referral providers of histology, pathology, haemotology, chemistry and microbiology services to veterinary practices

Third Party Pharmaceutical Companies

Export Partners

Veterinary Wholesalers and Distributors

Veterinary Practices

Horse Owners

Pet Owners

Farms

Your Questions Answered by Ian Page

Q How has the Group strategy developed since you became Chief Executive?

A Prior to my appointment as Chief Executive in November 2001, I was asked by the Non-Executive Directors to outline my growth strategy. Although I was Managing Director of *NVS* at the time, it was evident to me that the biggest opportunity for the Group was to develop our pharmaceutical business. The strategy was therefore to utilise *NVS*'s strong cash generation to invest in product development of specialist companion animal pharmaceuticals. This predominantly focused on Prescription Only Medicines ("POMs") in therapeutic areas for which there were inadequate products at the time. In reality the strategy has changed little since my appointment, although our product pipeline is now considerably stronger and Dechra's Pharmaceutical segments are now self-funding and do not rely on *NVS*'s cash generation.

Q What significant changes have you seen in Dechra in the last ten years?

A Historically the Group's turnover and profitability was driven by *NVS,* our Services business. With the successful delivery of our strategy, Group profits are now predominantly derived from our international pharmaceuticals business, DVP. We have therefore successfully transformed the business from being a low margin distribution business into a high margin specialist veterinary pharmaceuticals company. There has clearly been enormous change throughout the period as we have also grown from being a UK centric business to an international pharmaceutical company with sales and marketing teams in North America and the majority of Western European countries. We also have marketing partners in over 40 other countries around the globe. From a management perspective we have developed considerably and have attracted some highly qualified people from the veterinary industry to strengthen our capabilities and accelerate our development.

Q Why did you acquire Eurovet and what does it bring to the Group?

A There are very few companies that operate within the veterinary pharmaceutical market; the majority of the world's veterinary pharmaceuticals are marketed by big pharma. *Eurovet* was a company which had complementary competencies and products, and was of a scale suitable to be acquired by Dechra. We first approached *Eurovet* over six years ago as it was very clear to me that in terms of geography, products, manufacturing capabilities and management, it was strategically complementary to Dechra. The acquisition has extended the Group's capabilities into farm animal products; it has added significant scale in Germany and Benelux; brought sterile manufacturing capabilities to the Group and further strengthened our management capabilities.

Q How has the recession affected Dechra and the veterinary market?

A The recession has had limited effect on Dechra as the majority of our products are used to treat sick animals which continue to be treated by veterinary practices. Additionally, we have delivered new products and generated good geographical expansion; therefore, we have been able to deliver solid growth throughout the recession. However, historic high growth rates within the veterinary markets in the majority of our key territories have slowed down. This slow down in growth rates is predominantly due to reduced consumer spend in semi-discretionary items, such as specialist pet diets (like our Specific® branded diets) and flea products, where there is either a cheaper retail alternative or there is a consumer choice not to treat.

Q What does the future hold for the Group?

A I remain very positive about the Group's prospects. The integration of *Eurovet* has delivered the expected immediate synergies and significant additional synergies will be realised throughout the remainder of the integration process. The enlarged Group's product range has also created sufficient critical mass for us to trade through our own subsidiaries in more geographies. Our product range will continue to be enhanced from our robust product pipeline and with major significant novel products on the horizon, our portfolio will go from strength to strength. We have delivered good growth against a background of global recession; as the economy improves, footfall increases in veterinary practices and world demand for farm animal produce continues to increase, we expect this growth to continue.

Web link for your convenience

Ian Page
Q&A Online
Video

Watch the Online Video

go to www.dechra.com

Chairman's Statement

"We remain confident that our strategy will continue to deliver future solid growth and enhanced Shareholder value"

Michael Redmond
Non-Executive Chairman

Introduction

The year has proved very successful with strong underlying growth delivered and a significant strategic acquisition completed. The underlying growth has been generated from a solid performance by our licensed veterinary pharmaceuticals across all our major brands. Good revenue growth was delivered in both our Services segment and from our third party manufacturing. Solid progress has also been made on our product pipeline. Furthermore, our UK based manufacturer, Dales® Pharmaceuticals ("*Dales*"), has achieved a significant milestone in gaining US Food and Drug Administration ("FDA") approval to manufacture Vetoryl® for the US market. The strategic acquisition of *Eurovet* Animal Health B.V. ("*Eurovet*") increases the strength and depth of the countries in which we trade; increases our manufacturing competencies; provides complementary companion animal products and introduces Dechra into the farm animal products sector. *Eurovet* will deliver significant synergies throughout the integration process and will be earnings enhancing in the first full year of ownership, furthermore it will be materially earnings enhancing in the financial year ending 30 June 2014. The acquisition was funded by way of a fully subscribed Rights Issue and a new debt facility, details of which are provided within the Financial Review.

Financial Highlights

Group revenue increased by 9.5% from £389.2 million to £426.0 million. 7.9% of this growth was organic whilst 1.8% of the growth was contributed by *Eurovet*. Currency movements had a negative impact of 0.2%.

Underlying operating profit increased by 15.0% from £31.8 million to £36.6 million with *Eurovet* contributing £0.9 million to this figure. Underlying operating margin rose from 8.2% to 8.6%. This increase was due to strong pharmaceutical sales both in Europe and the USA which more than offset the effect of a reduction in margin at our wholesaler, *NVS*.

The underlying net finance expense was £3.6 million compared to £1.8 million in 2011. The current year figure includes a foreign exchange loss of £0.9 million (2011: gain of £1.0 million). Excluding this, the charge was broadly consistent with last year.

Underlying profit before taxation increased by 9.6% from £30.1 million to £33.0 million. At constant currency and excluding foreign currency gains and losses, underlying profit before taxation was £34.1 million, an increase of 17.3%.

Underlying earnings per share after taking into account the bonus element of the Rights Issue increased from 31.53 pence to 32.37 pence, up 2.7%.

Reported operating profit was £20.9 million (2011: £21.7 million) whilst profit before taxation was £16.8 million (2011: £18.5 million). Reported earnings per share was 15.65 pence (2011: 19.59 pence).

Net borrowings at 30 June 2012 stood at £86.7 million which equates to 1.8 times pro-forma EBITDA of the enlarged Group. This represents a significant reduction from the pro-forma net borrowings of £105.2 million shown in the *Eurovet* Prospectus.

In order to partially fund the *Eurovet* acquisition, the Group entered into a new £120 million debt facility, provided by a syndicate of four banks. The facility matures in October 2016 and further details are shown on page 37.

Dividend

In line with our progressive dividend policy and, after taking into account the recent Rights Issue, the Directors are recommending an increase in the final dividend to 8.50 pence per share (2011: 7.72 pence per share adjusted for the bonus element of the Rights Issue). This, together with the interim dividend of 3.77 pence per share (2011: 3.40 pence per share), makes a total dividend for the year of 12.27 pence per share (2011: 11.12 pence per share), a 10.3% increase. All figures have been adjusted for the bonus element of the Rights Issue.

The total dividend is covered 2.4 times by underlying profit after taxation (2011: 2.8 times).

The final dividend, which is subject to Shareholder approval at the Annual General Meeting to be held on Friday 19 October 2012, will be paid on 23 November 2012 to Shareholders on the Register at 9 November 2012. The date shares become ex-dividend is 7 November 2012.

People

The senior management team has been strengthened in the year by the acquisition of *Eurovet*. Furthermore, there have been a number of senior management appointments which are outlined in the Chief Executive's Review. Bryan Morton, one of our Non-Executive Directors, has decided to step down from his role; we are currently in the process of recruiting his successor. On behalf of the Board and Shareholders I would like to welcome all the *Eurovet* employees to the Group and wish our new employees every success in their future roles. I would also like to thank all employees for their continued hard work and dedication throughout the year.

Prospects

The integration of *Eurovet* is progressing to plan and is delivering the expected synergies; the enhanced product range is robust; our pipeline is at an advanced stage to deliver future significant products and the Group has identified other product, geographical and service opportunities. Current trading is in line with the Board's expectations. We are conscious of the ongoing global economic uncertainties, but remain confident that our strategy will continue to deliver future solid growth and enhanced Shareholder value.

Michael Redmond
Non-Executive Chairman
4 September 2012

Chief Executive's Review

"The Group continues to progress its strategic objective of building a high margin, cash generative veterinary products business"

Ian Page
Chief Executive

Introduction

The Group has delivered strong growth throughout the financial year and continues to progress its strategic objective of building a high margin, cash generative veterinary products business. Both revenue and profit growth have been driven by the performance of our Pharmaceutical segments; predominantly from the solid organic growth of our licensed pharmaceuticals. *Specific* branded specialist pet diets achieved modest growth at constant currency. Third party manufacturing revenues and profitability increased in the year; *Dales*, our main manufacturing site, achieved its first FDA approval to manufacture product for the US market. Good revenue growth was seen in our Services segment although gross margin remained under pressure due to product mix and increased discounting in a highly competitive market. However, as previously reported, there was an improvement in margin in the second half of the financial year compared to that achieved in the first half. There have been two acquisitions during the year (for, in aggregate £117.3 million): an equine product, HY-50®; and a Dutch based business, *Eurovet*. Both are detailed later in this report. These acquisitions will be earnings enhancing in the first full year of ownership, *Eurovet* is expected to be materially enhancing in the financial year ending 30 June 2014.

Our Strategy for Delivering and Maintaining Value

Historically the majority of the Group's turnover and profitability were derived from our Services segment. However, due to our clear strategic objective to develop a high growth, cash generative veterinary products business, Group profits are now predominantly derived from our Pharmaceutical segments.

Products

In the Group's Pharmaceutical segments growth will be delivered by:

- maintaining and, where possible, increasing market share of existing products;
- development of innovative, high margin, intellectually protected, international novel pharmaceutical products;
- approval of pharmaceutical differentiated and standard generic products;
- the continued development of *Specific* pet diets;
- in-licensing of high end products which can be marketed through existing sales and customer channels;
- increased geographical coverage through the creation of our own sales and marketing businesses;
- improving and developing sales growth via our export partners in non-subsidiary territories; and
- the selective acquisition of assets which either bring new products to the Group, or accelerate global expansion.

Services

With respect to the Services segment, specifically *NVS*, the strategic objective remains:

- to continue improving logistics excellence;
- to reduce operating costs as a percentage of sales;
- to, at a minimum, maintain operating margins; and
- to deliver new innovative customer services.

Manufacturing

The key strategic objective of manufacturing is to effectively and economically produce our own veterinary pharmaceutical product range. However, we have been successful in developing a contract manufacturing business by strategic implementation of:

- therapeutic sector specialisation;
- provision of a full service, from formulation and development through to manufacturing and packaging; and
- the ability to offer our customers a wide range of scale, dosage forms and packaging formats.

Acquisitions

HY-50

The worldwide rights (excluding Canada) to *HY-50* were acquired in January 2012 from Bexinc Limited for a cash consideration of 8.0 million Canadian Dollars (approximately £5.1 million), funded from the Group's existing cash resources.

HY-50 is used for intra-articular ("IA") or intravenous ("IV") treatment of lameness in horses caused by joint dysfunction. It is unique in Europe as being the only single injection to deliver 50mg of Sodium Hyaluronate and having both IA and IV indications. This product acquisition strengthens our specialist equine portfolio and will be earnings enhancing in the first full year of ownership.

It is currently approved and marketed by various companies in the UK, Belgium, the Netherlands, Sweden, Finland, Denmark, Norway, Italy, Germany and Spain. Furthermore, registrations are being considered for France and Ireland. Dechra already markets the product in the UK as the marketing rights were acquired as part of the Genitrix® acquisition. Marketing rights for all other territories return to Dechra by July 2013.

Eurovet Animal Health B.V.

On 23 May 2012, *Eurovet* was acquired from A.U.V. Holdings B.V. for €135 million in cash, on a debt free cash free basis. The acquisition was funded by a £60 million Rights Issue and a new £120 million debt facility, details of which are provided in the financial section of this report. *Eurovet* is a profitable European business, very similar in structure to DVP EU. It has targeted niche differentiated products in both companion animals and farm animals and has highly complementary products, geographies, manufacturing competencies and markets to Dechra.

Chief Executive's Review continued

There are a number of benefits to the acquisition:

Complementary Geographies

- It creates a strong presence in Germany where Dechra historically sold its products through a distributor;
- It considerably strengthens our sales and marketing infrastructure in Denmark, the Netherlands, Belgium and the UK, where synergies have already been realised through cost savings as duplicated sales offices have been rationalised; and
- There will also be some margin benefit from *Eurovet* products that can be distributed through Dechra's other European subsidiaries once *Eurovet*'s third party contracts are terminated.

Product Range

- *Eurovet* has a successful line of specialised generics that deliver technical or economic added value to end users;
- There is no significant overlap with Dechra's companion animal product portfolio with the range being complementary and enhancing to Dechra's own portfolio; and
- It provides an entry to the farm animal market which has been one of Dechra's strategic objectives.

Manufacturing Capabilities

- *Eurovet* brings a sterile facility providing a new manufacturing competency for Dechra. The facility is modern, having been built in 2007.
- The site, at Bladel in the Netherlands, also manufactures oral liquids, pre-mixes and water soluble powders which are almost entirely complementary to our existing manufacturing competencies.

Product Development

- *Eurovet* has a proven track record of delivering first entrant generics and added value generics with a new dosage form or delivery method. They have several products at an advanced stage of development with four already in registration.

Synergies

Annualised synergies of €6.0 million are targeted to be delivered within three years, of which €2.0 million is already being realised. These synergies will be achieved through:

- The rationalisation of the four duplicated sales and marketing functions with significant cost savings;
- Revenue synergies from Dechra products being sold through *Eurovet*'s German distributor;
- Revenue synergies from *Eurovet* products being sold through Dechra subsidiaries;
- Cost synergies from rationalisation of administrative expenses; and
- Margin improvement from in-house manufacturing of some previously outsourced products.

Key Products and Specialisations

Historically Dechra's product range was entirely focused on companion animals and horses. However, the acquisition of *Eurovet* has given the Group a significant and strategically important platform in the farm animal product market. The majority of key products in both the companion animal and farm animal markets are novel or have clear marketing advantages over competitor products. Several of our branded range have market leading positions in the majority of territories in which we operate.

Dermatology

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 more appropriately. Dechra's product portfolio, with its range of licensed and non-licensed topical products, is well positioned for this approach.

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 United States. The marketing rights for this product were acquired in May 2007.

DermaPet®, acquired in October 2010, 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 and Malaket.

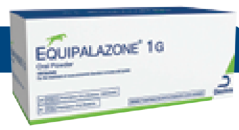
Ophthalmology

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

Fucithalmic® Vet, licensed in 1993, is the only licensed 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 and otic products in the USA, the long term marketing rights were acquired in May 2007. There are six products in the range, with the majority being the only veterinary licensed products in the American market.

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 a paste and injection. 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 USA market.

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

Endocrinology

Endocrine disorders are also a key focus for the business with a number of 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 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.

Felimazole was the first veterinary licensed product for the treatment of feline hyperthyroidism. 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.

Critical Care

Dechra has a wide range of products that support emergency medicine including licensed pharmaceuticals, wound treatments, consumables and instruments all predominantly sold in the UK. The leading range of products is the *Vetivex*® brand.

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.

Sedation and analgesia are major sub-groups of critical care. Dechra, enhanced by the *Eurovet* acquisition, 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 *Fentadon*®, the only licensed fentanyl for intra-operative analgesia and post-operative pain management.

Libromide® was approved in 2010 for the UK and mutually recognised in 11 additional territories in 2011/2012. It is the only licensed product of its type which is used in combination with other pharmaceuticals for the management of canine epilepsy.

Generics

Several generic products are registered within the United Kingdom; this basket of products is marketed under the *Dechra Veterinary Essentials*® brand. A number of products are also registered in Europe; we are in the process of in-licensing and registering additional products to extend our branded generic range within this territory. The acquisition of *Eurovet* has significantly strengthened this basket of products with the first differentiated generic of the active principle ingredient, pimobendan, branded *Cardisure*®. *Cardisure* is a leading treatment for canine congestive heart failure and is marketed throughout Europe.

Care

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.

Farm Animal Antimicrobials

A superior range of antimicrobial treatment products for swine and poultry has been added to the Dechra portfolio through the acquisition of *Eurovet*. In a market where there is increased emphasis on reducing the usage of antibiotics in the farm 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 product 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 approval 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.

Soludox®, marketed in Benelux since 2002, is a highly soluble antibiotic powder for administration via drinking water and is being sold in 16 European Member States as a result of approval for swine and chickens, completed in 2010. The active ingredient is doxycycline.

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 1990's. Thanks to successful European procedures in 2000, 2009 and most recently in 2012, this highly soluble liquid is marketed in 15 Member States. The active ingredients are sulphamethoxasol and trimethoprim, a proven synergistic combination for antimicrobial effectiveness.

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 Member States. The active ingredient is chlortetracycline.

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 70% of overall diet sales, provide optimum levels of nutrition in areas such as diabetes, arthritis and urinary, kidney, liver and heart problems. Life stage diets, which represent 30% of diet sales, provide premium quality daily nutrition for healthy dogs and cats.

The Business and its Markets

Dechra operates under four segments:

- **Product Development**;
- **European Pharmaceuticals** which comprises Dechra Veterinary Products Europe (including *Eurovet*) ("DVP EU") and Dechra Manufacturing;
- **US Pharmaceuticals** comprising Dechra Veterinary Products US ("DVP US"); and
- **Services** comprising National Veterinary Services ("*NVS*") and our Laboratories, Dechra Laboratory Services ("DLS") and Dechra Specialist Laboratories ("DSL").

The Group employs 1,237 people, operates out of 14 countries and exports products globally to over 40 countries.

Product Development

The ongoing development of our specialist branded veterinary exclusive products is a key part of the Group's future growth plans.

Development Strategy

The Group has a strategic programme to increase its product portfolio. The main criteria for assessing a potential product for inclusion in the development pipeline are:

- risk adjusted return on investment;
- market potential and future growth opportunities;
- geographical scope; and
- the ability to sell and market through existing distributor and veterinary customer channels.

Our product development is concentrated in four areas:

- Novel POMs for dogs, cats and horses. We target products in specialist therapeutic areas and focus on novel ideas using new Active Principle Ingredients ("APIs") in underserved markets. Most of our projects utilise existing pharmaceutical entities that are typically used within the human market and therefore the majority of product creation is development rather than research based.
- Development of generics in any major species, preferably within one of our areas of therapeutic sector specialisation. This includes standard generics for any species which are copycat products of an original proprietary veterinary product and differentiated generics, known as Star Products. Star Products are generic copies of existing veterinary medicines where a marketing advantage is found, such as an improved delivery system, clinical advantage or improved presentation.
- Therapeutic pet diets for dogs and cats. Products are formulated and trialled to provide optimum nutrition for animals diagnosed with various medical conditions.
- Unlicensed medicines, shampoos and supplements for dogs, cats and horses. These products, on the whole, are intended for veterinary recommendation and in most cases will complement the therapeutic areas in which our POMs are targeted.

Development Achievements

The Group has continued to increase investment in product development with a 9.8% increase in expenditure over the corresponding period last year. Dosage form and formulation work is conducted in the UK and the Netherlands; regulatory work is conducted in the UK, Denmark and the Netherlands; safety and efficacy trials are predominantly controlled by our USA team.

Pharmaceuticals

Registrations were achieved in the year for:

- 30mg and 60mg *Vetoryl* in Brazil;
- *Libromide*, through the mutual recognition process, in 11 European countries;
- *Malaseb* for Switzerland; and
- 120mg *Vetoryl* for the USA.

Since acquisition two *Eurovet* products have also received approval:

- *Methoxasol*, an antimicrobial for pigs and poultry for the EU; and
- Myorelax, an equine muscle relaxant for the EU.

Diets

A number of new diet products have been developed for the EU:

- *Specific* CED canine endocrine support for the treatment of endocrine disorders;
- *Specific* FID and FIW feline digestive support for cats with acute and chronic gastrointestinal disorders; and
- *Specific* FJD and FJW, a diet to support cats with osteoarthritis and reduced joint function.

Product Pipeline

Product Pipeline

Novel POMs

There are currently five novel products in development. A feline gastrointestinal project has been terminated prior to any significant costs being incurred due to the market size being immaterial. A new otic product has been added to the development schedule which has significant global potential. Two other products are at an advanced stage of review and at least one is likely to be taken forward. As previously reported, there has been a short delay in the first novel product, an equine lameness medicine, due to external manufacturing issues. However, it is pleasing to report that FDA completion letters have been received on safety and efficacy for this product.

Novel

Species	Indication	Territory	Manufacturing	2013	2014	2015	2016+
Equine	Lameness	International	Outsourced		•		
Canine	Endocrine	International	Own (in-house)			•	
Feline	Endocrine	International	Outsourced			•	
Canine/Feline	Dermatology	International	Own				•
Canine/Feline	Otic	International	Own				•

In excess of £30 million potential annual revenue and gross margin expectation in excess of 70%.

Generics

Species	Indication	Territory	Manufacturing	2013	2014	2015	2016+
Swine/Poultry	Anti-infective	EU	Own	•			
Canine	Sedative	EU	Own	•			
Swine/Poultry	Anti-infective	Germany	Own	•			
Canine/Feline	Sedative	EU	Own		•		
Swine/Poultry	Anti-infective	EU	Outsourced		•		
Canine/Feline/Equine	Critical care	EU	Outsourced		•		
Canine/Feline/Equine	Sedative	EU	Own		•		
Dairy	Anti-infective	EU	Own			•	
Swine/Poultry	Anti-infective	EU	Own			•	
Cattle	Anti-infective	EU	Outsourced			•	
Canine	Sedative	EU	Own				•
Canine	Diuretic	EU	Own				•

In excess of £10 million potential annual revenue and gross margin expectation in excess of 50%.

Diets

Species	Indication	Territory	Manufacturing	2013	2014	2015	2016+
Feline	Orthopaedic	EU	Outsourced	•			
Canine/Feline	Critical care	EU	Outsourced	•			
Canine/Feline	Urinary	EU	Outsourced	•			
Canine/Feline	Dental	EU	Outsourced		•		
Canine/Feline	Allergy	EU	Outsourced		•		

Development programme maintains competitive position and enhances growth.

Others

In addition, there are several other exploratory projects, line extensions, territory expansions and life cycle management projects.

Introducing the DVP Country Managers

Dechra Veterinary Products currently operates sales, marketing and technical support teams in 14 countries, each led by a manager who has a wealth of knowledge and experience of the animal health market in which they operate. These managers are integral to the growth in sales and profitability of our products in their countries.

United States

Mike Eldred
email: info@dechra.com
web: www.dechra-us.com

Mike Eldred was appointed as President of the US operations in 2004. Details of his previous professional experience can be found on page 43.

UK & Eire

Bob Parmenter
email: info.uk@dechra.com
web (UK): www.dechra.co.uk
web (Eire): www.dechra-eu.com

Bob Parmenter was appointed in July 2008 as the Country Manager of the UK and Eire. He has over 42 years' experience in the animal health business, of which 38 years were spent with ICI Animal Health (subsequently Intervet/Schering Plough). Bob joined the board of NOAH in 2002 and was appointed its Chairman from April 2010 to April 2012.

Spain & Portugal

Jesper Graff BBA, MBA, IESE
email: info.es@dechra.com
web: www.dechra.es

Jesper Graff started work for the Group in 1991 and was appointed the Country Manager of Spain and Portugal in 1998. He has over 16 years' experience in the animal health business. Jesper was previously an officer in the army. He graduated from Copenhagen Business School and obtained an MBA from IESE in Spain.

France

Florence Lasvergères DVM, MBA
email: info_fr@dechra.com
web: www.dechra.fr

Florence Lasvergères was appointed as the Country Manager of France in June 2007. She graduated as a veterinary surgeon from Alfort Vet School in 1988, and obtained a Masters in marketing from ESSEC-IMD. Florence has over 23 years' experience in the animal health business in various positions including regulatory, sales, marketing and management, successively with SmithKline Beecham, Upjohn and Pharmacia. She is also an active member of the French Office of Animal Health (SIMV) board.

Denmark

Mette Trige MSc
email: info.dk@dechra.com
web: www.dechra.dk

Mette Trige commenced work in 2001 as a sales representative and was appointed Country Manager of Denmark in 2006. She specialised in molecular genetics, nutrition and physiology at the Faculty of Life Sciences at the University of Copenhagen, graduating in 1994.

Norway

Sverre Aasgaard
email: info@dechra.no
web: www.dechra.no

Sverre Aasgaard started work with the Group in 1980 and has worked in various roles; he was appointed as the Country Manager of Norway in 2005. Sverre has over 30 years' experience in the animal health business. In 2006 he was appointed Honourable Member of the Norwegian Veterinary Association, being one of only two non-veterinarians to receive this award.

Finland

Henri Hilden DVM
email: info.fi@dechra.com
web: www.dechra.fi

Henri Hilden was appointed as the Country Manager of Finland in December 2007. He graduated as a veterinary surgeon in Sweden and Finland, in 1984 and 1988 respectively. Henri has over 20 years' experience in the animal health business in management positions for Orion Corporation Animal Health, Intervet Animal Health Finland, Veter Animal Health and Merial Norden A/S.

Sweden

Carina Kjellberg
email: info.se@dechra.com
web: www.dechra.se

Carina Kjellberg started in 2000 and was appointed the Country Manager of Sweden in 2005. She has over 21 years' experience in the animal heath business, 11 of which were working as a veterinary nurse.

Germany

Dr Gerfried Zeller Dr.med.vet
email: infor@albrecht-vet.de
email: info.de@dechra.com
web: www.albrecht-vet.de **web:** www.dechra-eu.com

Gerfried Zeller is the General Manager of Albrecht GmbH, the German subsidiary of Dechra. He graduated as a veterinary surgeon from Humboldt University of Berlin. Gerfried has more than 21 years' experience in the veterinary pharmaceutical industry, experienced with Hoechst Roussel Vet, Intervet, and since 2006, with Albrecht. Gerfried is member of the board of Bundesverband für Tiergesundheit (BfT), the German branch of IFAH and Chairman of the Friends Association of the Friedrich-Loeffler-Institute (FLI), Federal Research Institute for Animal Health.

Benelux

Kurt van der Heijden
email: info.nl@dechra.com
web: www.dechra.nl **web:** www.eurovet-ah.com

Kurt van der Heijden was appointed as the new Country Manager of Benelux, on the acquisition of *Eurovet*. He has over 20 years of management experience in various industries, of which the last six years have been in the animal health business, starting at Schering-Plough as Sales Manager Benelux and subsequently as Business Unit Manager Companion Animal at Intervet/Schering-Plough (now Merck Animal Health), followed by an international position as Regional Director at *Eurovet*.

European Pharmaceuticals: This segment comprises DVP EU (incorporating Eurovet) and Dechra Manufacturing

DVP EU Management Team

Tony Griffin
Managing Director

René Hogenkamp
Finance Director

Giles Coley
Sales and Marketing Director, Region I

Jan Jaap Korevaar
Sales and Marketing Director, Region II

Roeland Meijers
Director of Diets

Region I: Denmark, Finland, France, Norway, Sweden and UK
Region II: Benelux, Germany, Portugal and Spain

What we do

This business unit markets and sells our own branded veterinary products across 13 European countries and manages the relationships with our worldwide marketing partners.

Operational Structure

The business has an operating board of seven senior managers. The business is managed from Bladel, the Netherlands and Sansaw, UK. Companion animal marketing is located in Sansaw, farm animal marketing in Bladel and *Specific* pet diets marketing in Uldum, Denmark.

We have nine Country Managers operating out of Denmark, Finland, France, Germany, the Netherlands, Norway, Spain, Sweden and the UK. Ireland and Portugal are managed out of the UK and Spain respectively and Belgium and Luxembourg are managed out of the Netherlands.

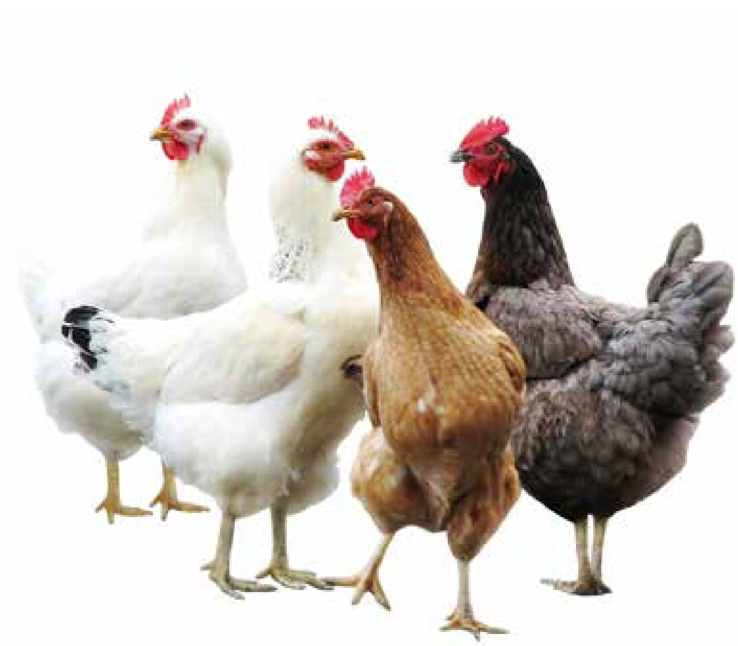
We currently employ 73 representatives across these territories. DVP EU, including *Eurovet*, employs 436 people.

Our Market

Our customers are veterinary surgeons, predominantly operating out of commercial veterinary practices. Before acquiring *Eurovet*, this was entirely small animal and equine; most European markets are demonstrating growth although, on the whole, this is inflationary. Although consumers continue to treat sick animals, high levels of historic growth have declined in the current depressed global economy as spend has reduced on discretionary items such as pet diets. However, this has had minimal effect on DVP as most our products are therapeutic. Internet pharmacies, predominantly in the UK, but also increasingly in other major European territories, are demonstrating stronger levels of growth as consumers look to reduce the cost of pet and horse ownership. Through *Eurovet* the business now supplies large animal practices; these are predominantly pig and poultry practices which are very specialised, and although few in number are high value. DVP EU also sells into over 40 countries through relationships with distribution partners who themselves sell into veterinary practices in their own country.

Carsten Jeppesen
Logistics Director Europe

Marie-Louise Mans
HR Director Europe



Key Strengths

Our business is unique as the majority of our products are either novel and are used to treat medical conditions for which there is often no other effective solution or have a clinical or dosing advantage over competitor products. Our key marketing benefit, especially on diets, is that our products are only marketed and sold to veterinary practices. Due to the technical nature of many of our products, we invest in state of the art online communication tools. We are one of the leading companies in the veterinary industry to offer online educational webinars and also approved continued professional development courses through our websites.

Achievements

The main achievement and ongoing priority is the integration of *Eurovet* into our European operations. Rationalisation of the four duplicated sales offices has been completed. *Eurovet*'s Danish and UK offices have been closed and now operate out of Dechra's facilities, whilst Dechra's Dutch and Belgian operation has been closed and now operates out of *Eurovet*'s facility in a consolidated Benelux unit. A number of key distribution agreements have been amended as we begin to realise revenue synergies on the marketing of *Eurovet* products through Dechra subsidiaries and through Dechra products being marketed by *Eurovet*'s German operation.

Like for like growth on our pharmaceuticals was 9.0% ahead of last year with good growth seen from our key products, *Vetoryl* and *Felimazole*, which were introduced into our own subsidiary sales and marketing teams at the beginning of the financial year. The *DermaPet* products, acquired in October 2010 to strengthen our US business, have been launched into several EU territories in Dechra livery with positive initial sales.

Eurovet revenue since acquisition has been in line with our expectations and ahead of their corresponding period last year. This was achieved despite ongoing pressure to reduce antibiotic usage, especially in the Netherlands, one of the main markets for this range.

Sales of our specialised pet diets grew by 1.9% at constant currency in the financial year. We have successfully completed the supply change of all feline dry products into our new outsourced manufacturing facility in Sweden following the transfer of our canine diets in the preceding year. The wet diets have been re-optimised and introduced in new European pack presentation with nine languages. This has improved operational efficiency as it reduces the number of stocking units from 130 to 19. Two new diets were launched during the period, *Specific* CED endocrine support and *Specific* FID digestive support.

European Pharmaceuticals
Manufacturing Management Team

Mike Annice
Managing Director

Kirsty Ireland
Finance Director

Andrew Parkinson
Quality Director

Gareth Davies
Sales and Marketing Director

What we do

We manufacture the vast majority of our own branded, licensed pharmaceutical products which are marketed through DVP; we also derive revenue from third party toll manufacturing for human pharmaceutical and other veterinary companies. This is Dechra's only significant source of revenue not derived directly from the veterinary market.

Operational Structure

The business has an operating board of four senior managers. The majority of manufacturing is located at *Dales* in Skipton, England and employs 209 people and at *Eurovet* in Bladel, the Netherlands which employs 106 people. There is also a small manufacturing facility in Uldum, Denmark which employs 26 people.

Our Market

The primary customer for our manufacturers is DVP EU. Our toll manufacturing customers are, in the majority, small or mid-sized UK based pharmaceutical companies. However, we also supply a number of other animal health businesses.

Key Strengths

Our ability to be flexible on batch size is a major advantage, especially when introducing new pharmaceuticals. Another key strength is our ability to produce several dosage formats such as sterile injectables, tablets, capsules, liquids, creams, gels, powders and pre-medicated feeds. We have the capacity to package these products in numerous formats. We are also able to provide a full service for third party customers including product formulation, trial batch manufacturing, validation, production and packaging.

Achievements

The biggest single achievement at *Dales* in the year was the FDA approval in November 2011 to manufacture 120mg *Vetoryl* for sale in the USA market. This approval, once extended into other dosage strengths of *Vetoryl*, will allow us to improve the margin on our leading product. Work has also commenced to extend FDA approval into other products and dosage forms so we can manufacture other novel products in our pipeline for the USA. A Medicines and Healthcare Regulatory Agency ("MHRA") audit was conducted over the period which achieved the highest audit standard in our history. Over £1 million of new contract business has been gained at *Dales* in the year which resulted in a 6.1% increase compared to the corresponding period last year. Service levels have improved within the organisation, achieving 95% of lines fulfilled on time. Furthermore, there has been continued product mix rationalisation, whereby lower value and inefficiently manufactured products have been deleted. This has resulted in an increase in unit added value of 9%. Significant investment has been made at the *Dales* site with an upgrade in the injections facility, including a new replacement autoclave and laboratory expansion in both the quality control laboratory and the product development formulation laboratory. The key focus of the manufacturing management team in the forthcoming year will be the integration of the *Eurovet* site at Bladel into the Group.

US Pharmaceuticals
DVP US Management Team

Mike Eldred
President, US Operations

Doug Hubert
Vice-President, Sales and Marketing

Dana Fertig
Veterinary Technical Services Manager

What we do
DVP US markets and sells our own veterinary products across the USA.

Operational Structure
The business has an operating board of three senior managers, all of whom have in-depth experience of the American veterinary market. Accounts, HR and pre-distributor logistics are all currently outsourced. Our business is located in Kansas City, USA and employs 36 people, 22 of whom are field based sales representatives.

Our Market
Our customers are small animal and equine veterinary surgeons, predominantly operating out of commercial veterinary practices. The USA is the world's largest veterinary market and represents a significant growth opportunity for Dechra. Over 62% of households own a pet which equates to 73 million homes, with a current estimated population of 86 million cats, 78 million dogs and 7 million horses.

Key Strengths
Our key pharmaceuticals, which are the focus of our sales and marketing efforts, are unique and are the first licensed products to treat the conditions for which they are recommended.

Achievements
Revenue across our US product range was approximately 26% higher than last year. Four new sales representatives and two field veterinarians were added to the organisation within the year. Further increases in headcount are planned for the future as we continue to increase our one-to-one coverage of the major US veterinary practices. Our key products, *Vetoryl* and *Felimazole* and the *DermaPet* range showed good growth. Overall revenue performance was again impacted by continual supply issues related to our historic dermatological, ophthalmic and otic range by a third party manufacturer. Work continues to improve supply consistency of the licensed dermatological products and the transfer of the sterile ophthalmic range into a new facility is ongoing. This transfer is targeted to be completed prior to the end of June 2013. *Vetoryl* sales achieved our expectations despite the ongoing battle against compounding pharmacies; there has, however, been a significant amount of publicity outlining to veterinarians the risks and lack of quality control associated with buying products from compounding pharmacies. Throughout the year over 100 regional meetings have been conducted by our technical support veterinarians; these have been attended by over 3,100 veterinarians.

Services: This segment comprises NVS and our Laboratories; DLS and DSL

NVS Management Team

Martin Riley
Managing Director

Dan Shipman
Finance Director

Steven Williams
Operations Director

Peter Cronin
Sales and Marketing Director

NVS Network

What we do

NVS is the UK market leader, as measured in terms of market share, in the supply and distribution of veterinary products to veterinary practices and other approved outlets. *NVS* stocks a range of over 14,000 products, including pharmaceuticals, pet products, consumables and accessories. *NVS* has also developed a range of IT solutions for veterinary practices.

Operational Structure

The business is managed by an operating board of four experienced directors. *NVS* employs 426 people across the UK, 111 of whom are delivery drivers.

The centralised inventory held in Stoke-on-Trent, England is picked and packed throughout the afternoon and evening and then distributed overnight to nine trunking depots via HGVs. Van drivers are employed locally at these depots to distribute the goods directly to our customers. *NVS* has developed an advanced communication system for its customers and through this 85% of orders are received automatically without requiring human input.

Our Market

Our principal customers are UK veterinary practices of all types: small animal, equine, farm animal and mixed species practices. Footfall through UK veterinary practices has remained consistent throughout the year; however, increased volumes of unregulated products, such as diets and shampoos, are now being purchased through internet pharmacies as consumers look to reduce the costs of pet health spending. The consolidation of veterinary practices into large corporate groups seen over recent years has continued within the period, putting pressure on margins and cash flow.

Key Strengths

NVS offers very high levels of service, a large range and depth of stock supplied via our reliable next day national delivery service. Additionally, *NVS* supplies a range of business solutions for veterinary practices including practice management software, benchmarking systems and marketing and business support.

Achievements

Services revenue grew by approximately 6.5% compared to the corresponding period last year. Operating efficiencies were gained in the period; however, operating margin declined in the first half of the financial year at *NVS* due to an increase in discount allowed and the decline in the proportion of revenue from higher margin product groups. The increase in discount allowed has been a feature of the highly competitive market over recent years. The sales mix has been influenced by consumers buying products such as pet diets from internet pharmacies, a sector in which we are currently underweight. A strong focus by the management team ensured that operating margin showed a small improvement in the second half of the financial year.

Following several years of planning, a new integrated IT system went live at *NVS* on 1 July 2011, coinciding with the beginning of the financial year being reported. This system has bedded in and Phase I completed. This has allowed management to focus more closely on our customer requirements and as a result communication and services have been significantly improved. Furthermore, the IT platform has allowed us to develop a new range of services to practices, such as an online Web Shop and an in-depth analytical tool for practices to monitor and manage their business performance.

Directors' Report: Our Performance

Services
Laboratories Management Team

Dr Peter Graham
Managing Director

Paul Sandland
Finance Director

Diane Saffery
Commercial Manager

What we do

DLS is a first referral veterinary laboratory. We provide histology, pathology, haematology, chemistry and microbiology services to veterinary practices. DSL provides secondary referral services with our key area of expertise being endocrinology. DSL also provides precise assays which support the dosage regimes and patient monitoring of DVP's key products, *Vetoryl* and *Felimazole*.

Operational Structure

The Laboratories, employing 73 people, are run by an operational board of two senior managers and are supported by the Group Financial Controller who also sits on this board. DLS is located in Poulton-le-Fylde, Leeds and Swanscombe, and DSL is located at Sawston. Samples are received on a daily basis via post, couriers and our own collection service. Where the science allows, a same day or next day results service is provided.

Our Market

DLS's customers are UK commercial veterinary practices. We have historically provided support to companion animal practices; in the last two years we have introduced an increased range of farm animal and equine services. DSL provides some first level support similar to DLS to UK veterinary practices; their major area of specialisation is in very precise endocrine assays which it supplies directly to veterinary practices and other first referral laboratories.

Key Strengths

We offer a high quality service with a very experienced team of veterinary pathologists who provide a fully interpreted results service on all samples received.

Achievements

We have rebranded NationWide Laboratories to Dechra Laboratory Services and Cambridge Specialist Laboratories to Dechra Specialist Laboratories; the objective is to better integrate the businesses. We have implemented a changeover from externally provided logistics to an internal Group solution, utilising the *NVS* distribution structure to collect samples from veterinary clinics. This initiative reduces costs and improves customer service. We are at an advanced stage of the implementation of a new Laboratories information management, accounting and customer relationship software package, with a go-live targeted prior to the end of the 2012 calendar year. The new system will significantly enhance the Laboratories customer service offering.

HR

The senior management team has been significantly strengthened by the acquisition of *Eurovet*. The DVP EU team has been restructured, incorporating senior managers from both businesses. Tony Griffin, previously *Eurovet* and AUV CEO, will manage this team and become DVP EU Managing Director. Furthermore, Tony will be invited to become a PLC Board Director and will be appointed prior to end of the 2012 calendar year. Ed Torr has stepped down from the role of European Managing Director and reverted to his historic duties in charge of business development, international expansion and product development. There have been three new senior managers recruited during the year: Allen Mellor has been appointed to a new role as Group IT Director, Peter Cronin has taken over the role of Sales and Marketing Director at *NVS* and Diane Saffery has been appointed as Commercial Manager of our Laboratories. Steve Williams, *NVS* Operations Director, has taken responsibility for Group logistics. Bryan Morton, who was appointed as a Non-Executive Director in January 2010, has unfortunately decided to step down from the role due to other work commitments. We are currently in the process of recruiting two new Non-Executive Directors; one to replace Bryan and the second to ensure the Non-Executive Directors are in the majority once Tony Griffin is appointed to the PLC Board of Directors.

The Performance Development Review scheme which incorporates the Dechra Values, outlined in the 2011 Annual Report and Accounts, has been rolled out across all senior management. The review process will be extended to all middle management throughout 2013 and across the whole Group thereafter, further details are provided in the Remuneration Report on pages 59 to 70.

Our Values

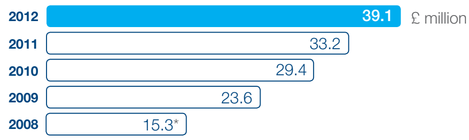
D	EDICATION	We are dedicated to delivering products and services that meet the highest level of service and quality to our customers
E	NJOYMENT	We will endeavour to create an environment where our people want to come to work and feel part of Dechra
C	OURAGE	We want a business where we dare to challenge each other, creating better cross-organisational solutions
H	ONESTY	We will act with integrity and fairness and treat everyone with respect
R	ELATIONSHIPS	We see our customers and suppliers as business partners and thereby work together to ensure common success
A	MBITION	We shall deliver solid results through our energetic and resilient approach

Key Performance Indicators ("KPIs")

Financial	Method of Calculation	Target
Revenue from key pharmaceutical products	Global revenue from our top five products	To achieve annual revenue growth of at least 10%
Revenue from specialist pet diets	Global revenue from the *Specific* brand of pet diets	To achieve annual revenue growth of at least 6%
Underlying operating margin before product development cost	Underlying operating profit before product development expenditure expressed as a percentage of Group revenue	To achieve an underlying operating margin before product development costs of 10% in the medium term
Cash conversion rate	Cash generated from operations before tax and interest payments as a percentage of operating profit before amortisation of acquired intangibles	To achieve an annual cash conversion rate of at least 100%
Return on capital employed ("ROCE")	Underlying operating profit as a percentage of average operating assets utilised. Operating assets exclude cash and cash equivalents, borrowings, tax and deferred tax balances	To achieve a return on capital employed which exceeds the pre-tax weighted average cost of capital of the Group ("WACC")
Non-Financial	**Method of Calculation**	**Target**
Pharmaceutical product development pipeline	Number of products from the pipeline or in-licensed into at least one major territory with long term revenue potential of at least £0.5 million	One new diet or range extension launched in the EU, two new pharmaceuticals, each launched in at least one key market
Health and safety performance	Lost Time Accident Frequency Rate ("LTAFR"): all accidents resulting in absence or the 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	Zero preventable accidents
Employees	Employee turnover calculated as number of leavers during the period as a percentage of the average total number of employees in the period	Moving Annual Turnover ("MAT") rate of less than 15%

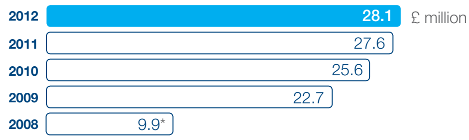
2012 Performance | Five Year Record

The KPI was exceeded during the year with a growth rate of 17.9% being achieved



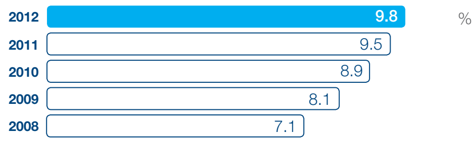
* *Canaural* and *Fuciderm* acquired in January 2008

A growth rate of 1.9% was achieved in 2012 with revenue being impacted by difficult economic conditions in most of our markets

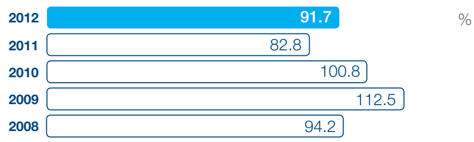


* Diets range acquired in January 2008

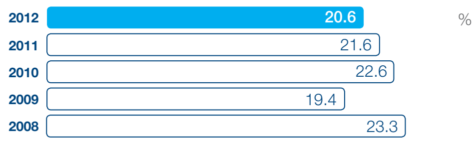
Further progress continues to be made towards the medium term target driven by the increasing proportion of revenue achieved from pharmaceutical products



The cash conversion rate showed an improvement compared to the previous year although it remained slightly below the target with the Services segment experiencing continued pressure on payment terms

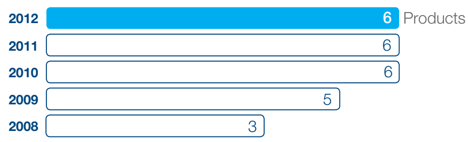


ROCE significantly ahead of the Group's WACC although it reduced slightly in absolute terms due to the *Eurovet* acquisition

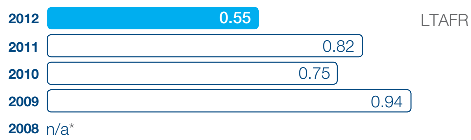


2012 Performance | Five Year Record

Two new diets launched, one pharmaceutical product approved and launched in the EU. New pharmaceutical registrations achieved in USA, Brazil and Switzerland

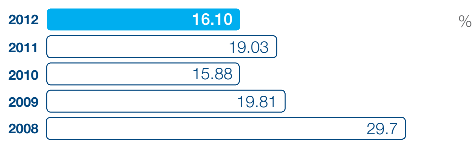


There has been a reduction in the total number of accidents during the year from 15 to 10. None of these accidents have resulted in a work related fatality or disability. More detail in relation to this can be found in the Social, Ethical and Environmental Responsibilities Report on pages 71 to 75



* Information not collected for this year

The MAT has shown a significant improvement down to 16.10% from last year's 19.03%. More detail in relation to this can be found in the Social, Ethical and Environmental Responsibilities Report on pages 71 to 75



Financial Review

"Operating profit for European Pharmaceuticals grew by 29.6% at constant currency with the operational leverage effect of higher pharmaceutical revenue being clearly demonstrated"

Simon Evans
Group Finance Director

Group Performance

Financial Highlights

	Underlying Results			Reported Results		
	2012 £'000	2011 £'000	Change %	**2012 £'000**	2011 £'000	Change %
Revenue	**426,041**	389,237	9.5	**426,041**	389,237	9.5
Gross profit	**99,259**	88,361	12.3	**99,259**	88,361	12.3
% of revenue	**23.3%**	22.7%		**23.3%**	22.7%	
Distribution costs	**(17,979)**	(17,659)	(1.8)	**(17,979)**	(17,659)	(1.8)
Selling, general and administrative expenses	**(38,944)**	(33,658)	(15.7)	**(54,655)**	(43,763)	(24.9)
Research and development expenses	**(5,735)**	(5,221)	(9.8)	**(5,735)**	(5,221)	(9.8)
Operating profit	**36,601**	31,823	15.0	**20,890**	21,718	(3.8)
% of revenue	**8.6%**	8.2%		**4.9%**	5.6%	
Profit before taxation	**32,966**	30,069	9.6	**16,820**	18,514	(9.1)
Taxation	**(8,664)**	(7,321)		**(5,071)**	(4,380)	
Profit after tax	**24,302**	22,748		**11,749**	14,134	
Earnings per share	**32.37p***	31.53p*	2.7	**15.65p***	19.59p*	(20.1)*
Operating cash flow before interest and tax payments	**29,128**	25,374	14.8	**29,128**	25,374	14.8
Cash conversion rate	**91.7%**	82.8%		**91.7%**	82.8%	
Free cash flow	**7,905**	9,294	(14.9)	**7,905**	9,294	(14.9)
Tax rate	**26.3%**	24.3%		**30.1%**	23.7%	
Total dividend per share	**12.27p***	11.12p*	10.3	**12.27p***	11.12p*	10.3
Net borrowings	**86,717**	34,091		**86,717**	34,091	

* Restated to reflect the impact of the bonus element of the Rights Issue.

Revenue, Underlying Operating Profit and Underlying Profit Before Tax at Constant Currency

	2012 £'000	2011 £'000	Change %
Revenue	**426,991**	389,237	9.7
Underlying operating profit	**36,845**	31,823	15.8
Underlying profit before taxation	**34,108**	29,070	17.3

Analysis of Revenue and Underlying Operating Profit Growth

	Revenue £'000	%	Underlying Operating Profit £'000	%
Year ended 30 June 2011	389,237		31,823	
Organic growth at constant currency	30,627	7.9	4,170	13.1
Impact of acquisitions	7,127	1.8	852	2.7
Impact of foreign currency movements	(950)	(0.2)	(244)	(0.8)
Year ended 30 June 2012	**426,041**	**9.5**	**36,601**	**15.0**

Revenue

	2012 £'000	2011 £'000	Change %
At Constant Currency			
European Pharmaceuticals			
Own branded pharmaceuticals	**64,322**	48,614	32.3
Diets	**28,143**	27,621	1.9
Third party contract manufacturing	**11,431**	10,772	6.1
Instruments, consumables and equipment	**1,894**	2,280	(16.9)
Total European Pharmaceuticals	**105,790**	89,287	18.5
US Pharmaceuticals	**20,287**	16,107	26.0
Services			
Veterinary wholesaling	**310,184**	291,180	6.5
Laboratories	**5,488**	5,078	8.1
Total Services	**315,672**	296,258	6.6
Inter-segment	**(14,758)**	(12,415)	
Total revenue at constant currency	**426,991**	389,237	9.7
Currency impact	**(950)**	—	
Reported revenue	**426,041**	389,237	9.5

Overall Group revenue increased by 9.5% compared to the 2011 financial year. Of this increase, 7.9% was organic growth, the *Eurovet* acquisition contributed 1.8% and currency movements had a negative impact of 0.2%.

Within European Pharmaceuticals, own branded pharmaceuticals grew strongly with a constant currency increase of 32.3% compared to the prior year (17.7% excluding *Eurovet*). This was the first full year that the marketing of *Vetoryl* came back in-house from our previous marketing partners. Our range of specialist pet diets grew by 1.9%.

Third party contract manufacturing grew by 6.1% compared to the 2011 financial year, returning to growth after a small reduction in revenue last year.

Revenue from US Pharmaceuticals grew by 26.0% compared to the prior year with *Vetoryl, Felimazole* and the *DermaPet* range all performing strongly. As with prior reporting periods, continued manufacturing issues with our ophthalmic and otic range had a negative impact of US$1.1 million on revenue.

Within the Services segment, our UK veterinary wholesaler, *NVS*, recorded growth of 6.5% in the financial year. This was slightly lower than overall market growth in the period due to *NVS* being underweight in internet pharmacies. Revenue from our Laboratories business showed an increase of 8.1%, reflecting a bounce back from the reduction in revenue seen in the 2011 financial year.

Gross Profit

Gross margin for the Group increased from 22.7% to 23.3%. This was driven by increased revenue from higher margin pharmaceuticals which was partially offset by a reduction in the *NVS* gross margin caused by increased discounting and an adverse sales mix.

Underlying Distribution Costs

Distribution costs increased by 1.8% compared to 2011, if *Eurovet* is excluded, the increase was only 1.0%. This below inflation increase was as a result of increased efficiency, particularly in our DVP EU and *NVS* businesses.

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

SG&A expenses increased by 15.7% (8.1% excluding *Eurovet)*. This increase reflects, in particular, the continued build of sales and marketing infrastructure within our US business and the additional costs of marketing *Vetoryl* in-house within our DVP EU operation.

Financial Review continued

Research and Development Expenses

Research and development expenditure increased by 9.8% from £5.2 million to £5.7 million. This increase supports our product development programme which has been enlarged following the acquisition of *Eurovet*. Further details are given on pages 17 to 19.

Underlying Operating Profit

	2012 £'000	2011 £'000	Change %
At Constant Currency			
European Pharmaceuticals	**29,166**	22,506	29.6
US Pharmaceuticals	**5,845**	4,838	20.8
Services	**11,056**	13,087	(15.5)
Research and development	**(5,735)**	(5,221)	(9.8)
Central costs	**(3,487)**	(3,387)	(3.0)
Underlying operating profit at constant currency	**36,845**	31,823	15.8
Currency impact	**(244)**	–	
Reported underlying operating profit	**36,601**	31,823	15.0

Operating profit for European Pharmaceuticals grew by 29.6% at constant currency (24.3% excluding *Eurovet*) with the operational leverage effect of higher pharmaceutical revenue being clearly demonstrated.

US Pharmaceuticals achieved a strong increase of 20.8% in operating profit despite the build-up of sales and marketing infrastructure noted earlier.

The Services segment showed a reduction in operating profit compared to 2011 with the reduction in gross margin noted above only partially mitigated by efficiency savings. Although operating margin for the year fell from 4.4% to 3.5%, the operating margin in the second half of the financial year showed an improvement to 3.6% compared to the 3.4% achieved in the first half.

Underlying Net Finance Expense

The underlying net finance expense in the 2012 financial year was £3.6 million compared to £1.8 million in 2011. However, the 2011 figure was flattered by a £1.0 million gain on foreign exchange whilst there was a loss of £0.9 million in 2012. Excluding foreign exchange gains and losses, the charge for 2012 is broadly equivalent to that for 2011.

Underlying Profit Before Taxation

Underlying profit before taxation increased by 9.6% from £30.1 million to £33.0 million. At constant currency, the increase was 17.3%.

Non-underlying Items

Non-underlying items in the year comprised amortisation of intangibles acquired as a result of acquisitions together with one off costs relating to acquisitions and subsequent reorganisations, principally *Eurovet*. Full details are shown in notes 4 and 5 to the financial statements. The Directors believe that highlighting these items separately gives a better understanding of the performance of the Group.

Taxation

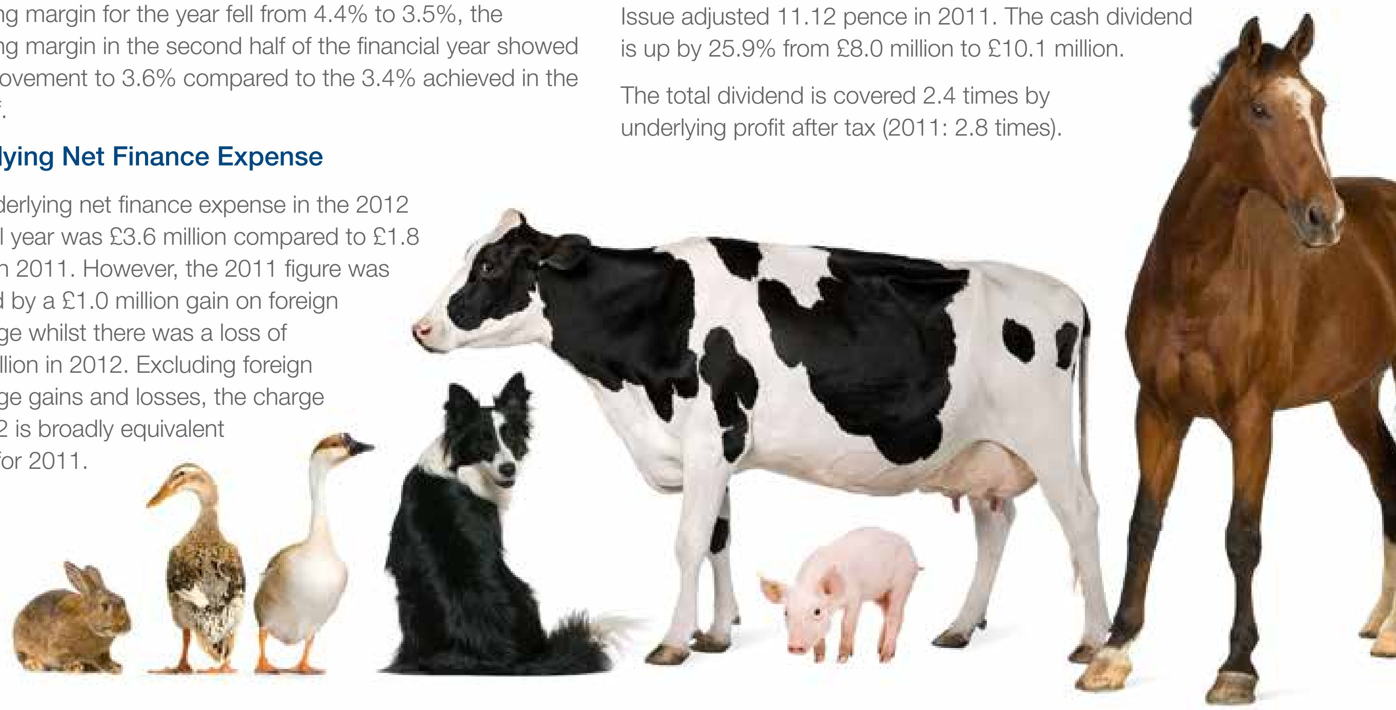
The effective tax rate on underlying earnings was 26.3% compared to 24.3% in 2011. In 2012 there were certain foreign exchange losses for which there was no tax credit. In 2011 the tax rate benefited from non taxable foreign exchange gains.

Earnings Per Share and Dividend

Underlying earnings per share was 32.37 pence compared to 31.53 pence in 2011, up 2.7%. Both of these figures have been adjusted to reflect the bonus element of the Rights Issue. The relatively small increase reflects the additional number of shares issued in respect of the *Eurovet* acquisition against the small profit contribution from *Eurovet* recognised in the period from acquisition to the year end. *Eurovet* is expected to be earnings enhancing in the year ending 30 June 2013.

The Board is proposing a final dividend of 8.50 pence per share which, when added to the interim dividend of 3.77 pence (adjusted for the bonus element of the Rights Issue), gives a total dividend of 12.27 pence. This compares to the Rights Issue adjusted 11.12 pence in 2011. The cash dividend is up by 25.9% from £8.0 million to £10.1 million.

The total dividend is covered 2.4 times by underlying profit after tax (2011: 2.8 times).



Cash Flow

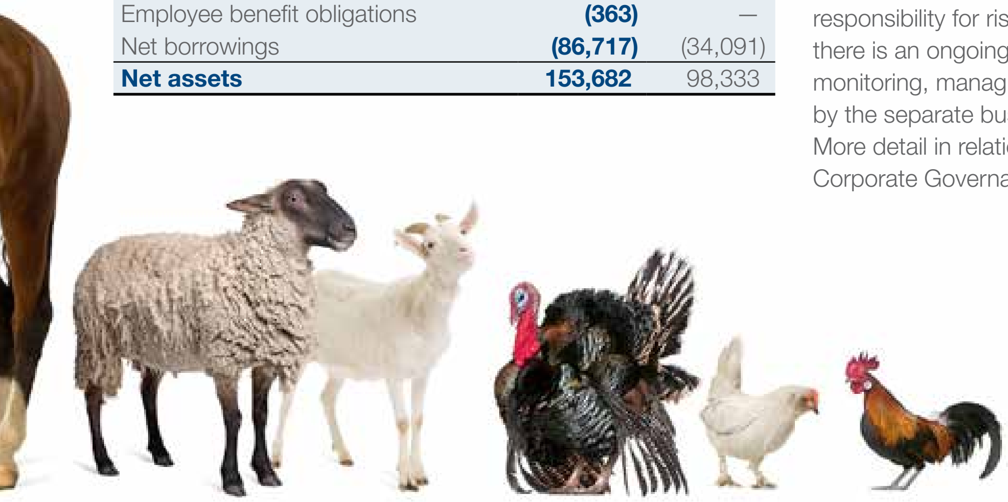
	2012 £'000	2011 £'000
EBITDA	**35,238**	33,616
Share-based payments charge	**1,001**	830
Changes in working capital	**(7,111)**	(9,072)
Cash generated from operations	**29,128**	25,374
Net interest	**(2,426)**	(2,629)
Taxes paid	**(7,241)**	(5,034)
Capital expenditure	**(3,278)**	(4,090)
Proceeds of asset sales	**50**	2
Repayment of borrowings	**(8,328)**	(4,329)
Free cash flow	**7,905**	9,294
Acquisitions	**(117,335)**	(33,047)
Net new borrowings	**61,400**	29,556
Issue of share capital	**59,288**	541
Dividends	**(8,325)**	(7,221)
Foreign currency effects	**(994)**	(129)
Net cash flow	**1,939**	(1,006)

The cash conversion rate in 2012 was 91.7% compared to 82.8% in 2011. A strong cash inflow in the second half resulted in an improvement of 14.8% compared to last year.

Free cash flow was slightly below the 2011 level due to higher debt repayments in the year.

Financial Position at the Year End

	2012 £'000	2011 £'000
Non-current assets		
Intangible assets	**225,872**	125,098
Property, plant and equipment	**16,720**	7,721
	242,592	132,819
Working capital	**49,531**	32,494
Deferred and contingent consideration	**(13,863)**	(14,055)
Current tax liability	**(8,155)**	(5,391)
Deferred tax liability	**(29,343)**	(13,443)
Employee benefit obligations	**(363)**	—
Net borrowings	**(86,717)**	(34,091)
Net assets	**153,682**	98,333



The balance sheet at 30 June 2012 is enlarged due to the acquisition of *Eurovet* on 23 May 2012 together with the consequent Rights Issue.

Net borrowings at the year end represented 1.8 times underlying pro-forma EBITDA compared to 2.3 times at the time of the *Eurovet* Prospectus. Of the increase in working capital, £11.0 million was as a result of *Eurovet* with the remainder reflecting increased trading activity.

Bank Facilities

The Group's bank facilities were re-financed and increased during the year in order to partially fund the acquisition of *Eurovet*. The new facilities have been provided by a syndicate of four banks and comprise:

- a £55 million term loan repayable in instalments through to October 2016. The first repayment of £5 million is due on 31 March 2013
- a £65 million revolving credit facility commenced until October 2016

The main covenants are:

- cash flow cover no less than 1.25:1
- interest cover no less than 4:1
- the ratio of net borrowings to annualised EBITDA no higher than 2.75:1 up until 30 June 2013 and 2.50:1 thereafter
- consolidated net worth no less than £120 million

There was substantial headroom on all covenants during the year.

The Group also has a £10 million overdraft facility which is currently unutilised.

Risks and Uncertainties

As we have stated in previous reports, the Group, like every business, faces risks and uncertainties in both its day-to-day operations and through events relating to the achievement of its long term strategic objectives. The Board has ultimate responsibility for risk management within the Group and there is an ongoing and embedded process of assessing, monitoring, managing and reporting on significant risks faced by the separate business units and by the Group as a whole. More detail in relation to this process can be found within the Corporate Governance section on pages 44 to 54.

Financial Review continued

The table below highlights the main potential risks to the Group strategy, as identified by the Board, and the controls put in place in order to mitigate the risks:

Strategy	Risk
To develop a high growth, cash generative specialist veterinary products business	Competitor product launched against one of our leading brands
	Revenue from recently launched new products failing to meet expectations
	Failure of clinical trials
	Prescribing pressure on veterinarians to reduce antibiotic use
	Failure to meet regulatory requirements under which we operate
To sustain growth and innovate in our Services business	Loss of key personnel*
	The failure of a major customer or supplier*
	Fuel shortage/logistics failure

* These risks apply across all trading segments.

How we mitigate the risk
• Product improvement plans and marketing strategies are reviewed on a regular basis • Where competitor products are launched a response strategy is established and followed by our marketing team to highlight any unique selling points or competitive advantages or to position our products defensively to minimise competitor impact • Market research is conducted in order to allow the marketing team to better understand customer needs and ensure that our products fulfil the identified requirements • Any product patents are monitored and consideration given to the formulation of a defensive strategy towards the end of the life of the patent
• In respect of all new product launches a detailed marketing plan is established. Progress against the plan is constantly monitored • The Group ensures that it has detailed market knowledge and retains close contact with customers through its sales team • Alongside the marketing plan the sales team receives training on the product, its benefits and all available technical information
• Before major costly efficacy studies are initiated, smaller proof of concept studies are conducted to study the effects of the drug on target species and for the target indication
• Regular contact is made with all relevant veterinary authorities to ensure that we have a comprehensive understanding of anticipated regulatory changes • Programme of development of new products that minimise antimicrobial resistance concerns
• The Group always strives to exceed regulatory requirements and ensures that its employees have detailed experience and knowledge of the regulations • All businesses have clearly established quality systems and procedures in place • Regular contact is maintained with all relevant regulatory bodies in order to build/strengthen relationships and ensure good communication lines • The regulatory and legal teams remain constantly updated in respect of proposed/actual changes in order to ensure that the business is equipped to deal with and adhere to such changes • Where any changes are identified which could affect our ability to continue to market and sell any of our products a response team is created in order to mitigate such risk and to retain effective communication with the relevant regulators • External consultants are utilised to audit our manufacturing systems prior to any major inspection
• Succession planning is given consideration by the Board and, where deemed necessary, Key Man Insurance is in place • In 2009 the Group HR Director developed and implemented a leadership development programme for the senior management team in order to further strengthen the retention of the individuals. This programme is ongoing and includes the involvement of personal coaches • As stated in earlier in this report a Performance and Development Review process is in the early stages of implementation
• The business units monitor the financial status of both key customers and suppliers and maintain regular contact with them (including face to face meetings) • All contacts with customers 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
• Standard operating procedures have been drafted in respect of fuel emergences to provide a daily service. Such standard operating procedures are regularly reviewed in order to ensure they remain effective • Delivery routes are constantly monitored by the operations department in order to ensure that they remain effective, economic and efficient • Routine ongoing maintenance of the automated picking circuit at *NVS* and ensuring that all critical components are held on site

Board of Directors

Ian Page

Chief Executive

Aged 51, Ian joined *NVS* at its formation in 1989. He was also part of the MBO in 1997. In 1998, he was appointed Managing Director at *NVS*. He joined the Board in 1997 and became Chief Executive in November 2001. Ian has played a key role in the development of the Group's growth strategy. Prior to joining the Company, he gained extensive knowledge and experience through various positions he held within the pharmaceutical and veterinary arena. In October 2010 he was appointed Non-Executive Chairman of Sanford DeLand Asset Management Limited.

Simon Evans BCom, ACA

Group Finance Director

Aged 48, Simon qualified as a Chartered Accountant in 1988 and spent seven years at KPMG. He joined *NVS* in 1992 and was appointed Group Finance Director in 1997 following the MBO. He played a major role in the management buy-out of the Group from Lloyds Chemists in 1997 and its subsequent listing on the London Stock Exchange in 2000.

Ed Torr

Director of Product and Business Development

Aged 52, Ed joined *NVS* as Sales Director in 1997 and was appointed Managing Director of Arnolds and *Dales* in 1998. He was appointed Development Director in 2003 and Managing Director of Dechra Veterinary Products Europe in January 2008, following completion of the acquisition of *VetXX*. In May 2012 on the completion of the acquisition of *Eurovet* Animal Health B.V., Ed reverted to his historical position within Dechra as Director of Product and Business Development. Prior to joining the Group, he worked within the animal healthcare sector for a number of companies including ICI, Wellcome and Alfa Laval Agri.

Michael Redmond *†•

Non-Executive Chairman, Chairman of the Nomination Committee

Aged 68, Michael joined the Group as a Non-Executive Director in April 2001, and was appointed Chairman in July 2002. He has extensive pharmaceutical industry experience having begun his career with Glaxo and through senior positions with 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 1995 following its takeover by RPR. In November 2009, Michael was appointed Chairman of Abcam PLC, an AIM listed company, where he had previously held the post of Deputy Chairman (appointed February 2009). Following the resignation of Bryan Morton, Michael has been appointed as a temporary member of the Audit Committee until the appointment of a new Non-Executive Director.

Neil Warner BA, FCA, MCT *†•

Senior Independent Non-Executive Director, Chairman of the Audit Committee

Aged 59, Neil joined the Board in May 2003. He was Finance Director at Chloride Group PLC, a position he held for 14 years until its acquisition by Emerson Electric Co. Prior to this, Neil spent six years at Exel PLC (formerly Ocean Group PLC and acquired by Deutsche Post in December 2005) where he held a number of senior posts in financial planning, treasury and control. He has also held senior positions in Balfour Beatty PLC (formerly BICC Group plc), Alcoa and PricewaterhouseCoopers. In February 2011 Neil was appointed Non-Executive Director and Chair of the Audit Committee of Vectura Group plc, a product development company focused on the development of a range of inhaled therapies, principally for the treatment of respiratory diseases. He is also Non-Executive Chairman of Enteq Upstream plc, a specialist reach and recovery products and technologies provider to the upstream oil and gas services market, a post he has held since May 2011.

Dr Christopher Richards MA, D.Phil *†•

Non-Executive Director, Chairman of the Remuneration Committee

Aged 58, Chris joined the Group as a Non-Executive Director in December 2010. He is Chairman of Arysta LifeScience Corporation, having previously been appointed 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. Chris holds a number of Non-Executive Directorships including Bio Products Laboratory Ltd (appointed February 2011) and Cibus Global Limited (appointed November 2011). He is also Chairman of Oxitec Limited (appointed January 2012) and Plant Health Care plc (appointed August 2012).

Zoe Goulding LLB (Hons)

Company Secretary and Solicitor

Aged 38, Zoe was appointed as Company Secretary in July 2007. She qualified as a solicitor in April 2000. Prior to joining the Group she worked at Eversheds LLP and Brammer plc.

* Member of the Audit Committee

† Member of the Remuneration Committee

• Member of the Nomination Committee

Senior Management

Tony Griffin

Managing Director, Dechra Veterinary Products Europe

Tony was appointed Managing Director of DVP EU in May 2012 following the acquisition of *Eurovet* Animal Health B.V. 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 and in 2006 became the CEO of the AUV Group.

Dr Susan Longhofer

DVM, MS, DipACVIM

Product Development and Regulatory Affairs Director

Susan joined the Group in June 2005. She has 23 years' industry experience in development and worldwide registration of animal health pharmaceuticals, having worked for multinational corporations including Virbac Corporation, Heska Corporation and Merck Research Laboratories. Her veterinary degree is from Texas A&M University and her MS is from the University of Wisconsin, Madison. She was awarded Diplomate status in the American College of Veterinary Internal Medicine in 1992. She has held a number of Academic and Professional Honours including membership on the Board of Directors of the American Heartworm Society and the Executive Council of the American Academy of Veterinary Pharmacology and Therapeutics (AAVPT). She is currently the Secretary of AAVPT.

Mike Annice

BSc (Hons), MRPharmS

Managing Director, Dechra Manufacturing

Mike graduated from The School of Pharmacy at Aston University in 1980. Prior to joining *Dales* in 1990 as Site Manager, he worked within the Hospital Pharmacy Service, Glaxo and SSS International (formerly Cupal Pharmaceuticals). He was appointed Technical Director at the time of the Group's MBO. Mike was appointed Managing Director at *Dales* in March 2002 and has subsequently assumed responsibility for all of Dechra's manufacturing activities as the Group has acquired additional facilities in Denmark and the Netherlands over recent years.

Barbara Johnson

Chartered MCIPD

Group HR Director

Barbara joined the Group in April 2008. Prior to this she gained 19 years' human resources management experience within the food and drink industry covering manufacturing, retail, wholesale and distribution. Barbara has previously worked for Allied Domecq plc, Geest plc and Nicholl Food Packaging Limited. Prior to joining private industry, Barbara served for ten years in the British Army.

Paul Sandland

MAAT, FCCA

Group Financial Controller

Paul was appointed as Group Financial Controller of Dechra and Finance Director of Dechra Laboratory Services and Dechra Specialist Laboratories in January 2010. He qualified as a Chartered Certified Accountant in 2005. Paul spent five years post qualification at KPMG, during which time he was part of the team which advised the Group on its acquisition of *VetXX* in 2008.

Allen Mellor

Group IT Director

Allen joined Dechra in April 2012. 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 departmental management, his last role was as Head of IT for the BSS Group PLC, a leading plumbing and heating distribution company.

Rob Joosten

Product Development & Regulatory Affairs (Eurovet)

Rob joined *Eurovet* in 1989 as registration officer with responsibility for veterinary services. In 1990 he was appointed as Head of Regulatory Affairs and Development, before being promoted to R&D Director in 2009. In addition to his role at *Eurovet*, Rob is cofounder and chairperson of the European Group for Generic Veterinary Products (EGGVP) and regularly speaks at international conferences on various topics related to the veterinary medicinal product authorisation process in the European Union.

Mike Eldred

BA, MBA

President, US Operations, Dechra Veterinary Products

Mike was appointed in November 2004 to head up the Group's sales and marketing drive in the United States. He has over 18 years' professional experience in the US animal health sector, having held senior positions in business development, sales and operations at Virbac Corporation, and international marketing and operational positions at Fort Dodge Animal Health. Mike began his career with Sanofi Animal Health where he managed the pharmaceutical and biological production planning activities.

Martin Riley

Managing Director, National Veterinary Services

Martin was appointed Managing Director of *NVS* in 2005. A graduate of the Welsh Agricultural College in Aberystwyth, Martin has extensive knowledge of the animal healthcare and veterinary sectors. Before joining the Group, he previously held several senior positions over an 18 year period with the pharmaceutical manufacturer Merial Animal Health.

Dr Peter Graham

BVMS, PhD, CertVR, DipECVCP, MRCVS

Managing Director, Dechra Laboratory Services and Dechra Specialist Laboratories

Peter was appointed Managing Director of Dechra Laboratories in 2003. Peter graduated from the University of Glasgow Veterinary School in 1989 and was awarded his PhD on the Epidemiology and Management of Canine Diabetes Mellitus in 1995 by the same institution. Between 1995 and 2002, Peter was Assistant Professor at the world's largest specialist veterinary endocrinology laboratory in Michigan State University, USA, leading it as Section Chief from 2000. He was awarded Diplomate of the European College of Veterinary Clinical Pathologists in 2002.

Steve Williams

Group Logistics Director

Steve joined the Group as Operations Director for *NVS* in July 2009, and was appointed Group Logistics Director in April 2012. With over 18 years' management experience in logistics, Steve has operated within both in-house and 3PL Logistics organisations, utilising single and multi-site distribution networks. Prior to joining Dechra, Steve worked for Kronospan UK, TDG Logistics and Crest Medical Ltd.

Corporate 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 2012.

As you will no doubt realise, the 2011/2012 financial year has been a busy period as we completed the acquisition of *Eurovet*, our biggest acquisition to date. As a result of this acquisition we have moved from being a constituent member of the FTSE Small Cap to the FTSE 250. This transaction has re-emphasised the importance of governance within our strategy and decision making.

This year, for the first time, all of the Board will stand down and seek re-election at the forthcoming Annual General Meeting in line with the UK Corporate Governance Code. Further detail in relation to this is provided later in this report. However, we have chosen to continue with our internal board evaluation process rather than seek an externally facilitated review. As we reported last year, the internal evaluation process has been substantially enhanced. All board members embraced the process, resulting in open and honest discussions which gave rise to a number of action points being agreed and then taken forward by the Executive Directors; the action points arising from the 2010/2011 board evaluation are explained later in this report. The 2012 board evaluation process has commenced in a similar vein and I look forward to reporting the action points to you in next year's report. The Board will give consideration to a potential external evaluation next year.

Board diversity, not only in terms of gender but in its wider context, has also been discussed by the Board and we are in the process of formulating our diversity policy. A recruitment process has commenced for two additional Non-Executive Directors and if possible at least one of these will be a female appointment. I recognise that my leadership of the Board over the forthcoming year is critical to ensuring that the new Directors settle into their roles quickly and effectively. I will work alongside the Company Secretary to ensure that they receive a detailed and tailored induction to the Group upon their appointments.

In July 2012 we received Bryan Morton's resignation following an increase in his professional commitments outside Dechra. During his tenure the Group completed a number of material acquisitions and I would like to take this opportunity to thank him for his input and valued contribution to the Group and wish him well in the future.

Finally, I look forward to working with the Board over the coming year in order to continue to deliver growth and progress our strategy. Should you have any questions in relation to this report, please feel free to contact myself or the Company Secretary.

Michael Redmond
Non-Executive Chairman

Directors' Report: Corporate Governance

The Financial Reporting Council's UK Corporate Governance Code (the "Code") establishes the principles of good governance for companies; the following report describes how the Company has applied these principles to its activities. The Board remains committed to maintaining high standards of corporate governance and continually strives to do so. In the opinion of the Directors, the Company has complied with the Code throughout the period under review.

The Company became a constituent member of the FTSE 250 in June 2012; however, in line with the Code, it is classed as a small company for this reporting period.

Leadership

The Board

The Board is led by the Chairman, Mike Redmond, and comprises three Executive Directors and, following the resignation of Bryan Morton on 9 July 2012, two Non-Executive Directors. The biographical details of the Board of Directors are shown on pages 40 to 41.

The Chairman

The primary role of the Chairman 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 has a strong working relationship with Ian Page, the Chief Executive, working closely with him thereby ensuring that board decisions and strategy are implemented throughout the Group. There is a clear division of the roles and responsibilities of the Chairman and the Chief Executive. These have been defined in writing and agreed by the Board.

The Chairman, at the time of his appointment, did meet and continues to meet the independence criteria defined within the Code. During the 2011 board evaluation process one of the areas which the Board focused on was succession planning, particularly in light of the fact that the Chairman, and also the Senior Independent Director, have both held their positions for in excess of nine years. Given the changes at board level and the scale of acquisitions which have taken place over the last two years it was felt necessary to give consideration to the Chairman remaining in position for a further three years in order to oversee the induction and development of the new Non-Executive Directors. A letter was sent to the Company's top ten Shareholders outlining this proposal and, in August 2012, it was agreed by the Nomination Committee that the position of the Chairman would be reviewed again prior to the 2014 Annual General Meeting.

The Nomination Committee will continue to rigorously review the Chairman's position on an annual basis. At the most recent meeting of this Committee, it was agreed that Mike Redmond continues to lead the Board effectively and maintains his independence and integrity at all times. He provides an invaluable contribution and insight to the Board by reason of both his previous pharmaceutical experience and detailed knowledge of the Company.

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.

As stated above, post year end, Bryan Morton resigned as a Non-Executive Director. Bryan resigned as he considered he could no longer provide the requisite time commitment required for his position on the Board and as Chairman of the Remuneration Committee due to an increase in other professional commitments. The process has now commenced to appoint a replacement for Bryan Morton and also to appoint a further Non-Executive Director with a financial background who will replace Neil Warner as Chairman of the Audit Committee on his proposed resignation at the 2013 Annual General Meeting. The Board understands the benefits of a diverse membership and is committed to ensuring that, subject to having the relevant experience and skills to sit on the Board, if possible at least one of the appointments will be female.

Corporate Governance continued

Senior Independent Director

Neil Warner has been our Senior Independent Director since 5 November 2010. As such he will continue to be available to Shareholders in respect of any concerns they may have where contact through the normal channels has failed to resolve the issues or for which such contact is inappropriate.

The Senior Independent Director also works with the Chairman on the process for the selection of a new Chairman and chairs the Nomination Committee when it is considering the succession of that role. Furthermore, the Senior Independent Director carries out the annual evaluation of the performance of the Chairman.

Neil Warner has held a Non-Executive Directorship with the Company since 2 May 2003. Following consultation with the Group's top ten Shareholders (as described above), it is likely that Neil Warner will stand down at the 2013 Annual General Meeting.

Chief Executive

The Chief Executive, Ian Page, has day-to-day responsibility for the management of the Group. 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 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. Further details in relation to the appointment can be found in the Remuneration Report.

Company Secretary

Zoe Goulding was appointed as Company Secretary on 2 July 2007 and acts as Secretary to the Board and its committees. 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.

Corporate Governance Framework

The Board is collectively responsible for the success of the Company, ensuring that the Group is appropriately managed and achieves its strategic objectives. The Board fulfils this responsibility by monitoring the performance of the Group by:

- assisting, in a challenging and constructive manner, the Executive Directors in the setting of objectives for Group operating performance, financial goals and strategic progress;
- evaluating the progress of the achievement of the objectives and plans; and
- monitoring all significant risks which face the Group.

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 Report and dividend policy
	Approval of development expenditure
	Approval of treasury policy
Internal Controls	Review and approval of internal controls and risk management policies and processes
Corporate Governance	Board and Committee composition (including succession planning)
	Corporate Governance matters
	Approval of policies such as Health and Safety and the Business Code of Conduct

In addition, the Board also focuses on the financial controls imposed on Executive Directors to ensure that these are at the requisite levels so as not to hinder day-to-day administration of the business but to ensure adequate internal control. Below board level, operational and financial controls are imposed by Delegated Authorities. This document is reviewed on an annual basis along with the schedule of matters reserved to the Board. Where necessary these documents are updated in line with best practice ensuring that the processes remain robust.

Board Meetings

Following a review of the number of scheduled board meetings it was agreed to reduce these from eleven to nine per year. The board meetings are generally held at *NVS*, Stoke-on-Trent, with the intention that at least one meeting a year is held at another operational site within the Group. During the year four additional meetings were required to discuss the acquisition of *Eurovet.*

Attendance at the board and nomination committee meetings during the year to 30 June 2012 was as follows (details of attendance at the audit and remuneration committee meetings are provided on pages 56 and 60 respectively):

Name	Board (14 Meetings)	Nomination (1 Meeting)
Mike Redmond	14	1
Bryan Morton	12	1
Dr Chris Richards	12	1
Neil Warner	13	1
Ian Page	14	n/a
Simon Evans	14	n/a
Ed Torr	13	n/a

Note: n/a denotes that the Director is not a member of this committee, but may attend by invitation.

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 pack is still provided allowing the Director to raise any queries/discussion points either through the Chairman or Company Secretary, allowing their views to be fully discussed at the meeting. Post 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.

Following the board meetings the Company Secretary ensures that an accurate record of the meeting is made which is circulated to the Board as soon as possible 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, the Chairman would invite him to provide a written statement for circulation to the Board.

The Board believes in the necessity for challenge and debate in board meetings and considers that the existing board dynamics and processes encourage honest and open debate with the Executive Directors. The Board believes that the decision making process is inclusive and is not dominated by any one individual or group of individuals.

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. Every meeting agenda comprises reports from the following individuals:

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

Corporate Governance continued

In addition, twice a year the Board receives detailed health, safety and environmental reviews encompassing all operating segments plus activities of the Transport Risk and Sustainability Committees. Three times a year the Board receives a full risk assessment review for discussion; this is following detailed risk reviews within each of the business units. Other ad hoc material relating to specific projects, legal and regulatory matters is included as necessary. The reports ensure that the Board is updated on all major items of strategic planning, business performance, personnel, investments and significant policy issues. This allows the Board to continuously monitor the progress of the business and provides transparency across all areas within the Group.

As reported in the 2011 Annual Report, after a comprehensive review of the Group strategy, it was decided to reduce the number of board meetings attended by the senior management team from a quarterly basis to specific meetings. An annual strategic agenda was drawn up and approved by the Board. This agenda ensures that key strategic objectives are discussed on a regular basis. A list of operational areas such as business development, marketing, product development, human resources and IT are now diarised as agenda items for strategic consideration at future board meetings. Additionally, every six months, a comprehensive review of the Group strategy is carried out. This agenda provides the Board with an opportunity to speak with the senior managers on a one to one basis and gain a more in-depth understanding of their area of responsibility. During the year the following business presentations have been made:

Date of Meeting	Presentation Subject	Delivered by
July 2011	Oracle implementation within Manufacturing	Kirsty Ireland (Dechra Manufacturing Finance Director)
October 2011	Product Development Pipeline Update	Susan Longhofer (Product Development and Regulatory Affairs Director)
December 2011	*NVS* — ERP system post implementation update Human Resources Update (including update on the implementation of the Performance Development Review process and also succession planning)	Martin Riley (*NVS* Managing Director) Barbara Johnson (Group HR Director)
January 2012	Manufacturing Update (with an additional focus on supply chain management)	Mike Annice (Managing Director, Dechra Manufacturing)

On a regular basis the Chief Executive and Group Finance Director attend the board meetings of the businesses which make up the operating segments (in relation to the US these meetings are generally held by video conference). The meetings are chaired by the Chief Executive allowing him and the Group Finance Director the opportunity to obtain detailed information on the businesses' strategic, operational and financial progress including any issues potentially preventing the achievement of those targets. Key operational information obtained from these meetings is then fed back to the Board.

The Chief Executive along with the Product Development and Regulatory Affairs Director also chairs at least two product development meetings per year. Representatives from marketing and manufacturing departments generally attend the meeting thereby allowing the product pipeline to be comprehensively reviewed.

The Chairman and the Non-Executive Directors meet prior to 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 outside of the scheduled board meetings.

The Board has also formally delegated specific responsibilities to board committees, including the Audit, Remuneration and Nomination Committees. The terms of reference for each of these committees are available on the Company's website or on request from the Company Secretary. The Board also appoints committees on an ad hoc basis to approve specific projects as deemed necessary.

The Company maintains an appropriate level of Directors' and Officers' insurance in respect of legal action against Directors.

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 24 months:

- Retirement of Malcolm Diamond (Non-Executive Director) on 5 November 2010;
- Appointment of Bryan Morton (Non-Executive Director) on 8 January 2010;
- Appointment of Dr Chris Richards (Non-Executive Director) on 1 December 2010; and
- Resignation of Bryan Morton on 9 July 2012.

The following changes are scheduled to take place over the forthcoming 24 months:

- The appointment of Tony Griffin (Managing Director of DVP EU) as an Executive Director. It is intended that he will be appointed by no later than the end of the 2012 calendar year (once the integration of *Eurovet* into the Group has been fully achieved);
- The appointment of two additional Non-Executive Directors (one of whom will fill the vacancy created by Bryan Morton's recent resignation and one will replace Neil Warner in 2013 as Chairman of the Audit Committee); and
- The proposed retirement of Neil Warner at the 2013 Annual General Meeting at which point recruitment for a further Non-Executive Director will commence.

As previously stated, Mike Redmond's tenure as Chairman will be reviewed prior to the 2014 Annual General Meeting. The Board appreciates that Mike Redmond has held the position of Chairman for over nine years but, given the number of changes to the Board it is considered to be in the best interests of the Company and its stakeholders for him to continue in this position until the recent (and forthcoming) board changes have settled in. This will allow the newer members of the Board to draw upon the Chairman's experience, whilst allowing him to oversee their induction and development.

An external executive search agency has been retained to assist the Board in the recruitment of the two new Non-Executive Directors and it is intended that these recruitments will be completed by the end of the 2012 calendar year.

Overall, 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 and is integral to the decision making processes of the Board.

Diversity

The Board understands the importance of having a diverse membership and recognises that diversity encompasses not only gender but also diversity in terms of background and experience.

Although there are currently no female board members, 25.0% (2011: 37.0%) of the senior management team, 14.3% (2011: 14.3%) of the subsidiary executive boards and 44.8% (2011: 41.7%) of the overall workforce are females. In terms of the two Non-Executive Director positions currently being recruited female candidates have been specifically requested and if possible that appointment of a female will be made in respect of at least one of the positions.

Conflicts of Interest

Pursuant to the Companies Act 2006 all Directors have a duty to avoid a situation in which they could have, or 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 conflicts have arisen.

Corporate Governance continued

Information and Professional Development

Detail in respect of the information provided to the Board prior to each meeting is provided earlier in this report.

In order to ensure that the Board maintain their knowledge and familiarity with the Group's operations it is intended that at least one board meeting per year is held at one of the Group's operational sites (other than *NVS* where the board meetings are usually held). During the year a board meeting was held at *Dales*, Skipton, in June, where the Board had an opportunity to be shown around the manufacturing facility and meet with employees. Following the acquisition of *Eurovet* it is proposed to hold a board meeting at the main facility in the Netherlands during 2012/2013.

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 also 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.

The Company Secretary and Chairman 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 in respect of board diversity and the recent developments in narrative reporting. The Company's lawyers, DLA Piper (UK) LLP, were also invited to present a competition law update to the Board. In addition, the Company Secretary informs the Directors of any external training courses which may be of relevance. It is currently considered that the mixture of internal briefings and external training courses satisfies the Directors' training needs, however, this will be reviewed on an ongoing basis.

Each Director is entitled on request to receive information to enable him to make informed judgements in order to adequately discharge his 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.

Nomination Committee

The Board has an established Nomination Committee to lead the process for board appointments and to make recommendations to the Board. During the period the Nomination Committee comprised Mike Redmond (Chairman), Bryan Morton (resigned 9 July 2012), Dr Chris Richards and Neil Warner. The Chairman would not chair the committee meeting if it was dealing with the appointment of his successor. Details of the work carried out by the Nomination Committee during the financial year have already been detailed in this Report. The Nomination Committee normally meets once a year.

The terms of reference set out the Nomination Committee's role and the authority delegated to it by the Board. The terms of reference have been reviewed during the year, a copy of which is available on the Company website at www.dechra.com. They include the following responsibilities:

- 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 generally.

Other significant commitments of the Chairman and the Non-Executive Directors were disclosed to the Board before appointment and the Board is notified of any subsequent changes. The letters of appointment of the Non-Executive Directors are available for inspection at the Company's registered office. Both the letters of appointment of the Non-Executive Directors and the service contracts of the Executive Directors will be on display at the forthcoming Annual General Meeting.

Board Evaluation

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

- The 2010/2011 board evaluation:

  The evaluation process was reviewed in detail by the Chairman and the Company Secretary during 2010/2011. It was agreed that, given the number of changes to the Board during the review period, an internal (rather than external) evaluation would be most beneficial to the Company. A detailed discussion document was then developed which included 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 then 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 with the Board in August 2011 and a number of action points agreed, including the following:

Action	Progress
Requirement for additional resource at Executive Director level	Tony Griffin (Managing Director of DVP EU) has been identified as an additional Executive Director. It is considered that he will strengthen the current Executive team, providing the relevant experience to assist in the development and implementation of the Group strategy
Requirement for focus on Board and senior management succession plans	The HR Director has presented to the Board in respect of the current succession plans and this has been scheduled as a board agenda item every six months
Requirement for the formulation of a Group IT strategy and for a central IT function to be created	Allen Mellor has been appointed as Group IT Director and has carried out a review of the current IT capabilities and requirements within the Group. He is scheduled to present his findings to the Board in the autumn which will provide the basis for the Group IT strategy
Carry out a review of the current PLC meeting schedule to ensure that it utilises the Board's time effectively	The number of PLC meetings has been reviewed in line with the business requirements of the Group. It was agreed to reduce the number of annual meetings from eleven to nine
Carry out a review of the level of information supplied to the Board before each meeting	A review in respect of this is ongoing

- The 2011/2012 board evaluation:

  Following discussion it has been agreed to once again carry out a detailed internal evaluation similar in process to the 2010/2011 evaluation. The results of this evaluation will be reported in next year's Report and Accounts. Given the Company's move in June 2012 to the FTSE 250, consideration will be given to the potential additional benefits which could be derived from an externally facilitated review.

Re-election

At the forthcoming Annual General Meeting, all Directors will retire and offer themselves for re-election. Each of the Directors standing for re-election has been subject to a formal evaluation. Each of the Directors 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 stakeholders. The Board therefore recommends that Shareholders vote in favour of their re-election.

As stated earlier in this report, both Mike Redmond and Neil Warner have served as Chairman and Non-Executive Director respectively for more than nine years. Their performance has been rigorously reviewed and, for the reasons set out previously in this report, it is considered to be in the best interests of the Group and its stakeholders that they continue in office.

Corporate Governance continued

Accountability

Financial Reporting

The Board seeks to present a balanced and understandable assessment of the Group's position and prospects, through the Chairman's Statement and the Directors' Report.

The respective responsibilities of the Directors and the Auditor in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities and the Independent Auditor's Report on pages 80, and 81 to 82 respectively.

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 Business Review on pages 8 to 39. The principal risks that may affect the Group's future performance are set out on pages 38 and 39.

During the year being reported, trading has continued to be robust with an improvement in underlying profitability being achieved. Prior to the acquisition of *Eurovet*, the Group entered into a facilities agreement on 4 April 2012 (the "Facility Agreement") with a syndicate of banks comprising Lloyds TSB Bank plc, Barclays Bank PLC, Svenska Handelsbanken AB (PUBL) and HSBC Bank plc (the "Banks") under which a facility of £120 million was made available. The Facility Agreement includes:

- a £55 million, 4½ years amortising term loan, repayable in eight instalments on 31 March and 30 September each year of £5 million per instalment, rising to £7.5 million per instalment from and including 30 September 2015 with a final instalment of £7.5 million on 31 October 2016. The first repayment is due on 31 March 2013;
- a £65 million 4½ years revolving credit facility committed until 31 October 2016; and
- an overdraft facility of £10 million (currently unutilised) renewable on 1 April 2013.

The Group also had cash balances of £32.4 million at 30 June 2012.

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 these annual financial statements.

Internal Control and Risk Management

The Directors are responsible for maintaining the Group's system of internal control and for reviewing its effectiveness from a financial, operational and compliance perspective. The system of internal control aims 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 including the assessment and management of risk. The system of internal control is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has a well established, ongoing and embedded framework of internal financial and operational control for identifying, evaluating and managing the risks faced by the Group. Every four months the Board carries out a thorough review of relevant risk areas and systems of internal control. The review is structured by business area and key risk strategy and is based upon a summary of information prepared and reviewed by the business units' executive teams on an ongoing basis. This framework has been in place throughout the year under review, and has continued up to the date of approval of the Annual Report.

The Board has reviewed the operation and effectiveness of the internal controls for the year ended 30 June 2012. Further detail in respect of the risks and uncertainties faced by the Group and the mitigating action being taken can be found on pages 38 and 39.

The Group's key systems of control include:

- **Management Structure**

  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 in place.

  Key functions such as tax, treasury, insurance, legal and personnel are controlled centrally.

- **Management Accounting Systems**

  The finance department has ensured that a detailed management accounting system is in operation which allows the Board and management transparency in terms of financial and operational performance, measured against key performance indicators (set at both business unit and Group level). Detailed management accounts are prepared on a monthly basis covering all areas of the business; these are reviewed by the relevant business units at their management meetings and by the Board on a monthly basis, thereby allowing any material variances to be discussed and any necessary action taken on a timely basis. Detailed forecasts are prepared and discussed in detail on a quarterly basis; these are then escalated to the Board for consideration and approval.

  The finance department maintains a financial policies manual which covers central and divisional management. The manual is reviewed at least annually and is also updated whenever reporting standards, legislation or internal commercial reasons dictate. Any changes to the policies are communicated throughout the Group's finance department. The finance department also schedules a bi-annual internal conference at which a full technical update, tailored specifically to the Group's commercial needs, is presented by the Auditor. This conference did not take place during the 2011/2012 financial year due to time pressures on the management team who were involved in the acquisition of *Eurovet*.

  Business unit management certifies on a quarterly basis that key financial controls have been performed and that significant risks have been identified.

- **Business Plans**

  Business plans provide a framework from which annual budgets and forecasts are agreed with each business unit, including financial and strategic targets against which business performance is monitored. The plans are reviewed by executive management, and then by the Board for ultimate approval. Actual performance during the financial year is monitored monthly against budget, forecast and previous year.

- **Investment Approval**

  The Group has clear requirements for the approval and control of expenditure. Strategic investment decisions involving both capital and revenue expenditure are subject to formal detailed appraisal and review according to approval levels set by the Board. Capital expenditure is controlled within each business with approval levels determined by the Board.

- **Development Expenditure**

  The Group has a transparent and established process for evaluating and monitoring the level of development expenditure incurred. As with all other business units the Regulatory Department agrees an annual budget which receives approval from the Board; performance against this is monitored on an ongoing basis. The Regulatory Department re-evaluates all projects at least twice a year (and reports all material decisions and changes to the Board). When evaluating projects a number of measurement criteria are considered including the products' expected net present value and return on investment.

- **Whistle-blowing Policy**

  The Company has a whistle-blowing policy in place which 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. The Audit Committee reviews the whistle-blowing policy on an annual basis.

- **Business Ethics Policy**

  In line with the Bribery Act 2010 all current policies have been reviewed in order to ensure compliance with the legislation.

Corporate Governance continued

Audit Committee and Auditors

Information relating to the Audit Committee is set out in the Audit Committee Report on pages 55 to 58. This details the Company's compliance with the Code's requirements in respect of audit matters.

Responsibility for monitoring the Group's system of internal control rests with the Board. It is assisted by the Audit Committee, which reviews the half-year and annual reports provided to Shareholders, the audit process, the systems of internal control and risk management.

The Auditor is engaged to express an opinion of the Company's Annual Report and Accounts. They independently and objectively review management's reporting of the Group's consolidated results and financial position. In addition, they review the systems of internal control and the data contained in the Annual Report and Accounts to the level necessary for expressing their audit opinion.

Remuneration

Details of Directors' remuneration are set out in the Directors' Remuneration Report at pages 59 to 70. This report details the Company's compliance with the Code's requirements with regard to remuneration matters.

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 and Group Finance Director give annual and half-year results presentations to Institutional Investors, analysts and media, which are also available via telephone conference. These meetings are in addition to the Annual General Meeting and seek to foster mutual understanding of the Company's and Shareholders' objectives. Such meetings are conducted in a format to ensure protection of share price sensitive information that has not already been made generally available to the Company's Shareholders. Similar guidelines also apply to communications between the Company and parties such as financial analysts, brokers and media. The Company also organises site visits on a periodic basis.

Tony Griffin will attend a number of the Institutional Shareholder meetings to be held in September 2012, post the announcement of the full year results. This will provide a number of our major Shareholders the chance to meet Tony Griffin before the commencement of his appointment as an Executive Director.

Feedback is collated by the Company's Brokers after Investor 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.

The annual and half-year results presentations are available to private investors via the Company's website. The Company views the website as an important investor relations tool, and continually updates the website in line with best practice, ensuring that information relating to the Company and its activities is easily accessible.

Constructive Use of the Annual General Meeting

All members of the Board are scheduled to attend the Annual General Meeting and the Chairmen of the Audit, Remuneration and Nomination Committees will be available to answer Shareholders' questions both during the meeting and afterwards. Notice of the meeting, together with the Annual Report and Accounts, is posted to Shareholders not less than 20 working days prior to the date of the Annual General Meeting. The information sent to Shareholders includes a summary of the business to be covered at the Annual General Meeting, where a separate resolution is 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; this information will be made available as soon as practicable after the meeting on the Company website at www.dechra.com. The notice of meeting and an announcement relating to the total number of shares in respect of which Shareholders are entitled to exercise voting rights are made available on the Company's website the day after the notice of meeting is posted to Shareholders. At the Annual General Meeting there will be an opportunity, following the formal business, for informal communications between Shareholders and Directors.

Audit Committee Report

Neil Warner
Chairman of the Audit Committee

Dear Shareholder

On behalf of the Board I am pleased to present Dechra's Audit Committee Report for the year ended 30 June 2012.

The Committee continues to monitor and assess the integrity of the Group's financial statements and to review the effectiveness of the Company's internal controls and risk management systems. In carrying out these duties the Committee relies heavily on our Auditor and we remain confident in the quality and independence of their audit findings.

Following the *Eurovet* acquisition, the Committee has now formed the opinion that, given the increased size, complexity and geographical coverage of Dechra, an internal audit function is required. Work has commenced in relation to the scope of this appointment and recruitment will commence in the autumn.

The Committee also continues to closely monitor non-audit fees. During the year a decision has been taken to appoint Deloitte LLP to undertake tax and compliance work in substitution of the Auditor. It is considered that this will assist the Auditor's independence.

Following Bryan Morton's resignation, Mike Redmond has agreed to his temporary appointment as a member of the Audit Committee in order to ensure compliance with our Committee's terms of reference. I can confirm that, once a replacement Non-Executive Director has been recruited they will be appointed as a member of the Audit Committee and Mike Redmond will step down as a member of the Committee.

Finally, following over nine years' service with Dechra it is likely that I will stand down as a Non-Executive of the Group at the 2013 Annual General Meeting. The recruitment for an additional Non-Executive Director with recent and relevant experience has commenced. This will allow the opportunity for the incoming Non-Executive to sit as a member of the Committee for the rest of my tenure and allow a smooth and orderly handover of duties prior to my retirement.

Neil W. Warner.

Neil Warner
Audit Committee Chairman

Our Business
Directors' Report Our Performance
Directors' Report Our Governance
Our Accounts
Shareholder Information

Audit Committee Report continued

Member	Independent	Meetings eligible to attend	Meetings attended
Neil Warner	Yes	2	2
Bryan Morton (resigned 9 July 2012)	Yes	2	1
Dr Chris Richards	Yes	2	2
Mike Redmond (appointed 19 July 2012)*	Yes	N/A	N/A

Secretary
Zoe Goulding

* Mike Redmond has been appointed to the Audit Committee until a new Non-Executive Director is appointed in due course.

Role and Responsibilities

The main role and responsibilities of the Audit Committee (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 2011/2012 financial year this took place at the February meeting. Following this review no material changes to the terms of reference were made. The main responsibilities of the Committee are:

- to monitor the integrity of the financial statements of the Company, reviewing the annual and half-year reports in detail to ensure they present a balanced assessment of the Company's position and prospects which is understandable to Shareholders and potential investors;
- to review the effectiveness of the Company's internal controls and risk management systems as described on pages 38 and 39 and, in conjunction with the Auditor, consider the accounting policies adopted by the Company;
- to oversee the relationship with the Auditor. The Committee makes recommendations to the Board on the appointment of the Auditor, approves their remuneration and their terms of engagement, monitors their independence and objectivity, and sets the policy for non-audit work;
- to make recommendations to the Board on the requirement for an internal audit function;
- to review the arrangements for employees to raise concerns about wrongdoings, the Company's systems and controls for prevention of bribery and procedures for detecting, monitoring and managing risk of fraud.

In the performance of its duties the Committee has access to the services of the Auditor and is at liberty to obtain outside professional advice as necessary. During the year, no legal or independent professional advice was sought. The Auditor also has direct access to the Committee Chairman outside the formal committee meetings.

Membership, Meetings and Attendance

The membership of the Committee and meeting attendance is stated in the table above. Following the resignation of Bryan Morton, Mike Redmond was appointed as a temporary member to the Audit Committee until a new Non-Executive Director is appointed to the Company. The Board considers that Neil Warner has recent and relevant financial experience as recommended by the UK Corporate Governance Code as a result of his financial background. He has held a number of financial positions throughout his career including most recently Finance Director of Chloride Group PLC (a position he held from 1997 until end of December 2010) and as Chairman of the Audit Committee of Vectura Group plc (to which he was appointed in February 2011). No members of the Committee have links with the Auditor.

The Auditor attends meetings of the Committee other than when their appointment or performance is being reviewed. The Chief Executive, Chairman, Group Finance Director and other senior finance staff attended as and when appropriate. The Committee has discussions at least once a year with the Auditor without management being present. During the year the Committee Chairman meets informally and has access to the Group Finance Director, Group Financial Controller and the senior audit engagement team. This group generally meets before the Committee meetings that consider the full and half-year results.

Activities during 2011/2012

The Committee normally meets three times during the year, timed to coincide with the financial reporting timetable of the Company, however, it was decided that the audit strategy meeting be deferred from May to July following the completion of the *Eurovet* acquisition. The table below sets out a number of the matters which were discussed (and where necessary approved) at the three meetings:

Meeting	Matters discussed/approved at the meeting
August 2011	• Auditor's Report on the 2010/2011 financial results • Draft preliminary statement • Draft Annual Report • External audit effectiveness • Audit Committee effectiveness review • Auditor independence confirmation • Level of non-audit fees • Going concern confirmation • Internal controls • Proposed final dividend • Auditor representation letter
February 2012	• Auditor's report on half-year results • Draft half-year report and announcement • Terms of reference • Interim dividend • Going concern confirmation • Senior Accounting Officer requirement • Auditor representation letter • Level of non-audit fees • Requirement for an internal audit function • Whistle-blowing Policy
July 2012*	• Review of the requirement for internal audit function • Non-Audit fee update • IFS review update • Audit strategy for the year ended 30 June 2012 (including timetable, scope and fees) • Auditor independence • Company expectations of the audit

* Meeting postponed from May 2012.

Internal Control and Internal Audit Function

The Board retains overall responsibility for establishing the systems of internal control, 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 control activities and further detail in respect of the internal controls are provided within the Corporate Governance Section (on pages 52 to 53). The requirement for an internal audit function was discussed at the committee meeting in July 2012. In light of the *Eurovet* acquisition it was agreed that the Group was now of sufficient size to warrant an internal audit function. The Committee is in the process of defining the role and responsibilities for the function and intends to commence the recruitment process in autumn 2012.

Audit Committee Report continued

Auditor Independence and Non-Audit Fees

The Auditor annually confirms their policies on ensuring audit independence and provides the Committee with a report on their own audit and quality procedures. This report was reviewed during the audit strategy meeting held in July 2012 and the Committee remain satisfied of the Auditor's independence.

In line with the ethical standards of the Audit Practices Board the Group Audit Engagement Director is rotated every five years. The current Group Audit Engagement Director was appointed during the 2010/2011 financial year. The Committee has discussed the various changes which have been proposed by the FRC to the UK Corporate Governance Code and the Guidance on Audit Committees, in particular the recommendations relating to the expectation of external audit being put to tender every ten years and the increased reporting obligations of the Committee. The Committee will keep this matter under review during the forthcoming year.

With respect to non-audit assignments undertaken by the Auditor, the Company has a policy to ensure that the provision of such services do not impair their independence or objectivity. Safeguards are in place to ensure continued audit independence including utilising separate teams to undertake the audit and non-audit work. When considering the use of the Auditor to undertake non-audit assignments, the Chief Executive and Group Financial Director do at all times give consideration to the provisions of the FRC Guidance on Audit Committees with regard to the preservation of independence. Deloitte LLP have recently been appointed to undertake tax and compliance work in substitution for the Auditor; it is considered that this will assist the Auditor's independence.

The policy in respect of non-audit fees was reviewed and amended during the year ended 30 June 2009, whereby it was agreed that the non-audit fee be capped at 50% of the audit fee. Prior approval of the Committee is required should non-audit fees exceed the cap and an explanation of the reasons for exceeding the limit is provided to the Committee, who assess the qualification, expertise, independence and objectivity of the Auditor prior to granting approval.

The Committee believes that there are certain non-audit services where it is appropriate for the Group to engage the Auditor. During the year, the Auditor was commissioned to carry out extensive due diligence, working capital and reporting accountant work in respect of the *Eurovet* acquisition. The Auditor was considered most appropriate to perform this work given both their knowledge of the existing business and the requirement to report on the existing as well as the enlarged Group. This is consistent with the ethical standard recommended by the Accounting Practices Board. The fees paid to the Auditor for this work were in excess of the limits above, prior Board approval was therefore obtained.

A summary of audit and non-audit fees in relation to the year is provided in note 6 to the Group's financial statements. All non-audit work has been monitored at each meeting and approved by the Committee.

Effectiveness Review

During the year, the Committee reviewed its own effectiveness as a part of the overall board evaluation process. The Committee considered that it acted transparently and given the number of committee and board meetings scheduled throughout the financial year, maintained a thorough understanding of the Group and its business. The Committee also considered it had the skills to perform its responsibilities. The results of the review were advised to the Board.

The performance, cost and independence of the Auditor is reviewed annually by the Committee, together with a review of the level of service provided by the Auditor to the Group. Based on the Committee's review of the performance of the Auditor and on the planning and execution of the annual audit, the Committee has recommended to the Board that a resolution to reappoint KPMG be proposed at the forthcoming Annual General Meeting.

Neil W. Warner.

Neil Warner
Chairman — Audit Committee
4 September 2012

Directors' Remuneration Report

Dr Christopher Richards
Chairman of the Remuneration Committee

Dear Shareholder

On behalf of the Board I am pleased to present Dechra's Remuneration Report for the year ended 30 June 2012.

Following Bryan Morton's resignation at the beginning of July 2012 I have agreed to take on the responsibility as Chairman of the Remuneration Committee. At a time when executive remuneration is under intense public scrutiny, I believe that this role will be a challenging one. I am mindful that when making decisions sensitivity is given to all stakeholders. At the same time, we need to ensure that we provide remuneration packages for Executives which motivate them to continue to grow the Company.

Remuneration increases for the Executive Directors over the last three years has been limited to inflation. Over the same period, the Company has experienced annual double digit growth and completed a number of acquisitions, including *DermaPet*, *HY-50* and *Eurovet*. The latter acquisition is the largest transaction in the history of Dechra and represents a move into new territories and new markets for Dechra Veterinary Products and significantly increases the complexity of the Group. Given the increase in the scale and complexity of the Group and the increase in the Directors' responsibilities, the Committee has decided to carry out a review of Executive remuneration. The review should be completed by the end of the current financial year and it is intended that any proposals will be discussed with Dechra's main Shareholders before implementing any changes.

The other focus for the year ahead will be the implementation of the Performance and Development Review ("PDR") process. The approach has been piloted during 2011/2012 and initial feedback has been positive. A full 12 month PDR cycle is now underway by way of an extended group during the 2012/2013 PDR year. It is our intention to evaluate remuneration increases against individual performance results determined by the PDR outcome for 2013/2014. Particularly in respect of the Executives, this will provide a distinct alignment between any remuneration changes and the performance of the Group.

Finally, I welcome the view of all Shareholders in respect of this report. I shall be at the Annual General Meeting to discuss any queries you may have. Alternatively, I can be contacted via the Company Secretary.

Dr Christopher Richards
Remuneration Committee Chairman

Directors' Remuneration Report continued

The Remuneration Report is presented in accordance with the relevant provisions of the UK Corporate Governance Code (the "Code") and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the "Regulations"). In accordance with the Regulations the report is divided into two sections, unaudited and audited information. The audited information commences on page 69.

The Board is responsible overall for the Group's remuneration policy and the setting of the Non-Executive Directors' fees, although the task of determining and monitoring the remuneration packages of the Executive Directors and agreeing the Chairman's fee level has been delegated to the Remuneration Committee (the "Committee").

This report will be submitted at the 2012 Annual General Meeting for the approval of the Shareholders.

Membership

The Committee consists exclusively of independent Non-Executive Directors and during the financial year comprised as follows:

Member	Independent	Meetings eligible to attend	Meetings attended
Bryan Morton (resigned 9 July 2012)	Yes	2	1*
Mike Redmond	Yes	2	2
Neil Warner†	Yes	2	2
Dr Chris Richards‡	Yes	2	2

Secretary
Zoe Goulding

* Bryan Morton was unable to attend one meeting due to additional work commitments at EUSA Pharma. He was subsequently updated on the matters discussed at the meeting.

† Appointed Chairman of the meeting which Bryan Morton was unable to attend.

‡ Appointed Committee Chairman on the resignation of Bryan Morton.

The Chief Executive attended both meetings held during the financial year in order to assist on matters concerning remuneration of other senior executives within the Group; however, the Chief Executive was not present during the part of the meetings where his own remuneration was discussed.

Responsibilities

The Committee has its own terms of reference, which are approved by the Board. These are reviewed on an annual basis to ensure that they continue to adhere to best practice. During the 2011/2012 financial year this review took place at the May 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.

The Committee is responsible for determining, on behalf of the Board, the framework of remuneration for the Executive Directors and for ensuring and reviewing the ongoing appropriateness and relevance of the remuneration policy.

In particular, the terms of reference authorise the Committee to:

- make recommendations to the Board on Executive remuneration;
- determine on behalf of the Board specific remuneration packages and conditions of employment for Executive Directors;
- determine targets for any performance related pay schemes operated by the Company; and
- determine the policy for and scope of any pension arrangements for the Executive Directors.

Meetings

The Committee met twice during the year in accordance with its terms of reference. Members' attendance at the meetings can be found on page 60. The table below sets out a number of the matters which were discussed (and where necessary approved) at the two meetings:

Date	Subject Matter
August 2011	• Approval of Director bonuses • Approval of satisfaction of performance condition in respect of the LTIP • Review of Committee effectiveness • Discussion of the LTIP awards to be granted to Executives and Senior Management • Approval of satisfaction of Approved and Unapproved Share Options
May 2012	• Confirmation of Executive Directors' and Senior Managers' salaries • Confirmation of Chairman and Non-Executive Directors' fees • Confirmation of executive bonus arrangements for 2011/2012 • Rights issue adjustment to share option schemes and future share option grants • Review of terms of reference

Advisers

The Committee's main advisers are set out below:

Adviser	Areas of advice
Chief Executive Group HR Director	Remuneration of Senior Executives and senior management
DLA Piper (UK) LLP	Share Scheme matters (in particular in relation to the Rights Issue)
Hewitt New Bridge Street	Calculation of satisfaction (or otherwise) of the LTIP performance conditions
Deloitte LLP	General remuneration and incentive arrangements for Executives and general share scheme advice

DLA Piper (UK) LLP are the Company's lawyers and Deloitte LLP have recently been appointed to provide tax and compliance advice to the Group. Hewitt New Bridge Street has no other connection with the Company. The nature and quantum of other services provided by DLA and Deloitte are always considered in order to ensure that no conflict of interest arises in relation to the services they provide to the Remuneration Committee.

Effectiveness Review

During the year, the Committee reviewed its effectiveness as part of the overall board evaluation process. Following the reviews, the Committee considered it had the skills and experience necessary to perform its responsibilities. However, following the resignation of Bryan Morton, it was agreed that the Committee membership required strengthening once all additional Non-Executive Directors have been appointed to the Board. The Board was advised of these findings.

Directors' Remuneration Report continued

Remuneration Policy and Practice

Non-Executive Directors

The Board aims 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 and the Chairman. It should be noted that neither the Chairman nor the Non-Executive Directors takes part in the determination of their own remuneration. Non-Executive Directors are paid a basic fee with additional fees paid for the chairing of Committees. During the financial year under review the Non-Executive Directors' fees increased by 2%. Taking into account the current market sentiment in relation to increases in Non-Executive fees and in the light of pay increases across the Group, it has been agreed to increase the basic fee by 2% for the 2012/2013 financial year. The annual fee level for 2012/2013 is therefore:

Office	2012/13 Fee £'000
Chairman	86
Non-Executive Director	39
Remuneration Committee Chairmanship additional fee	3
Audit Committee Chairmanship additional fee	3

Non-Executive Directors are not eligible to participate in any of the Company's share schemes, incentive schemes or pension schemes.

Executive Directors

Dechra's policy on Executive Directors' remuneration is to provide remuneration packages that:

- attract, retain and incentivise Executives of the calibre required to ensure that the Group is managed successfully to the benefit of Shareholders;
- 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 also ensures the Company, through the Committee and its Chairman, maintains contact with principal Shareholders about remuneration matters.

As reported in the 2011 Annual Report the HR Director continues to establish a Group PDR process. It our intention to evaluate any Executive remuneration increases against individual performance results determined by the PDR outcome for 2013/2014.

The primary elements of the Executives' remuneration package focus on supporting different objectives, as illustrated in the following table, which also shows the remuneration opportunities for 2011/2012 and 2012/2013 along with the remuneration performance measures:

Policy	Opportunity and Performance Measures
Base Salary	
When considering base salary the Committee ensures that it provides the basis for a market competitive package to recruit and retain talent amongst the Executive team and that it recognises the value of the individual, their skills and experience and performance The Committee also takes into consideration: (i) remuneration packages payable to employees employed in comparable companies; and (ii) pay increases within the Group more generally	Base salaries are reviewed annually on 1 July. In line with the Group's budgeted average increase in base pay for all employees, the Committee agreed that base salaries be increased by 2% with effect from 1 July 2012 to: Ian Page — £382,565 Simon Evans — £240,470 Ed Torr — £229,539
Pensions	
The Company operates a Group Stakeholder personal pension scheme which has been effective since 1 July 2005	The Company contributes 14% of salary on behalf of the Executive Directors A salary supplement is paid in lieu of amounts above the annual allowance of £50,000 per annum
Benefits in Kind	
Provided on a market competitive basis	The Company provides the use of a fully expensed car, medical cover and life assurance scheme
Annual Bonus	
The executive bonus scheme rewards Executive Directors for achieving operating efficiencies and profitable growth in the relevant year by reference to challenging but achievable operational targets and individual objectives determined at the beginning of the financial year	Details of the executive bonus scheme for the 2011/2012 financial year can be found on page 65. The executive bonus scheme for the 2012/2013 financial year will be as follows: A payment of 10% of salary is triggered on achievement of 95% of budget and payment of 90% of salary on achievement of 105% of budget with straight line vesting for achievement between these two parameters A further 10% of salary can be earned based on the achievement of personal objectives The personal objectives for the Chief Executive, Ian Page, are set by the Chairman. The personal objectives for Simon Evans and Ed Torr are set by Ian Page

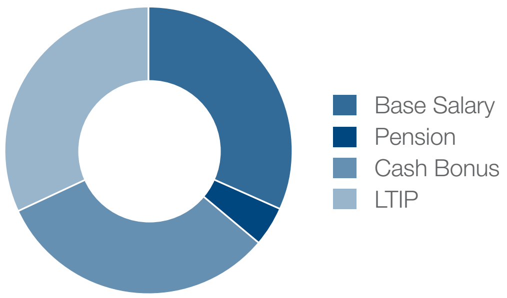
Directors' Remuneration Report continued

Policy	Opportunity and Performance Measures
Long Term Incentives Plan ("LTIP")	
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 closely to Shareholders' interests	Current scheme rules permit grants up to 150% of salary (200% of salary in exceptional circumstances) Actual awards made to the Executive Directors in 2011/2012 were 100% of salary For the grant during the financial year ended 30 June 2012 vesting is based on: • an 'underpin' condition based on the Company's underlying diluted earnings per share performance; and • the Company's TSR performance compared to the constituents of the FTSE SmallCap Index at the start of the performance period The performance measure for the 2012/2013 awards is currently being reviewed by the Committee. Any proposed change to the performance measure for the LTIP will be discussed with the Company's major Shareholders before being implemented

Balance of Remuneration

Just under two-thirds of each Executive Director's total remuneration is variable and is linked to corporate performance. The following chart illustrates the proportions of the Executive Directors' remuneration packages comprising fixed (i.e. base salary and employer pension contributions) and variable elements of pay, assuming maximum annual bonus and long term incentives are achieved.

Fixed vs Variable Pay at Maximum Performance



Base Salary

During the last four years (2008/2009 to 2011/2012) salary increases for the Executive Directors have been in line with average salary increases for the wider employee population (approximately 2% to 3%).

At the last review of Executive remuneration that took place during spring/summer 2010, the Committee concluded that the value of the Executive Directors' remuneration packages continued to be positioned at the lower end of the market. At the Committee meeting in May 2012, it was agreed that the Executive Directors would be awarded a 2% pay increase for 2012/2013 but that a review of their enhanced roles and responsibilities would be completed following the recent acquisition of *Eurovet*. Any proposed above inflationary increase will be discussed with the Company's major Shareholders before being implemented.

Annual Bonus

The Company operates an annual cash incentive scheme for the Executive Directors. Annual bonuses were awarded by the Committee in respect of 2011/2012 having regard to the performance of the Group and personal performance objectives for the year. Details of the 2012/2013 annual bonus scheme can be found in the table on page 63.

The amount achieved for the year ended 30 June 2012 against targets for 2011/2012 is as follows:

2011/2012 Targets	**Amount Achieved for the Year Ended 30 June 2012**
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 profit before tax target was £35.0 million on a constant currency basis; actual profit before tax was £34.8 million (at constant currency based on budgeted exchange rates) reflecting 99.6% of the profit target resulting in a payment worth 50% 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 2012	**60% of Salary**

Long Term Incentive Arrangements and Share Schemes

Long Term Incentive Plan

Awards, equal to 100% of salary, were granted to the Executive Directors on 7 September 2011.

Vesting of the awards will normally occur provided:

(a) that the participant is still employed by the Group at the end of the three year vesting period; and

(b) to the extent that the pre-set performance targets have been satisfied over the three year performance period which will run from the start of the financial year within which the award is granted. Performance targets for the grant during the financial year ended 30 June 2012 are:

  (1) an 'underpin' condition based on the Company's underlying diluted earnings per share performance — no awards will 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 will be determined by the Company's TSR performance compared to the constituents of the FTSE Small Cap Index at the start of the performance period. The TSR will be calculated by comparing average performance over three months prior to the start and end of the performance period. Vesting will be 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%

To the extent that the performance targets are not met over the three year performance period, awards will lapse, i.e. there is no retesting of the performance conditions.

As set out on page 69 for the three year period to 30 June 2012 the Company's TSR performance fell below the median of the FTSE Small Cap Total Return Index. Therefore, although the 'underpin' condition has been met no awards will vest on their maturity date.

Directors' Remuneration Report continued

Company Share Option Scheme and Savings Related Share Option Scheme

The Company also operates an Approved Share Option Scheme, an Unapproved Share Option Scheme and a Savings Related Share Options Scheme ("SAYE"). Executive Directors are entitled to participate in the SAYE but are not entitled currently to participate in the Approved Share Option Scheme or the Unapproved Share Option Scheme by reason of their participation in the LTIP. The Committee has the discretion to amend this going forward but would ensure that any such amendment would not result in an increase in the total pre-tax value delivered to participants.

Rights Issue

Following the Rights Issue completed in May 2012, the Committee approved adjustments to the LTIP, Approved Share Option Scheme, Unapproved Share Option Scheme and the SAYE in accordance with the rules of each of the relevant schemes. The adjustments, where necessary, were approved by HM Revenue & Customs and the effect of these adjustments on the outstanding LTIP and SAYE awards are shown on pages 69 and 70 respectively. The total value of outstanding awards under the Company's share plans was not increased as a result of these adjustments.

Share Ownership Guidelines

In line with best practice, there are formal share ownership guidelines for Executive Directors requiring them to retain at least half of any share awards vesting as shares (after paying any tax due on the shares) until they have a holding of Dechra shares worth at least 100% of their base salary. Currently, all of the Executive Directors' shareholdings equate to over 100% of their base salary:

Name	Ordinary Shares No.	Ordinary Shares £'000*	% of Salary
Ian Page	859,751	4,178	1,114%
Simon Evans	1,032,104	5,016	2,127%
Ed Torr	472,767	2,298	1,021%

* Calculated using the share price as at 30 June 2012.

In September 2010, the Board adopted formal share ownership guidelines for Non-Executive Directors, whereby Non-Executive Directors are required to acquire the equivalent of 50% of their base fee by the third anniversary of their appointment to the Board. With the exception of Bryan Morton, the Non-Executive Directors' shareholdings equate to over 50% of their annual fee.

Name	Ordinary Shares No.	Ordinary Shares £'000*	% of Salary
Mike Redmond	73,417	357	424.8%
Bryan Morton (resigned 9 July 2012)	3,645	18	43.2%
Dr Chris Richards	7,400	36	94.6%
Neil Warner	5,448	26	64.6%

* Calculated using the share price as at 30 June 2012.

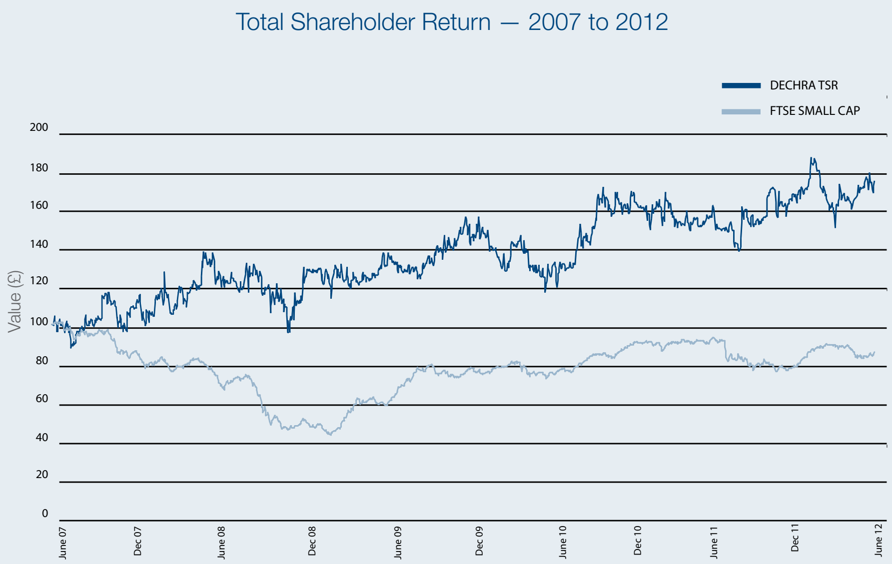
Policy on External Appointments

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.

Total Shareholder Return 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 Small Cap Total Return Index. In June 2012 the Company moved from being a constituent member of the FTSE Small Cap Index to the FTSE 250; as the move to the FTSE 250 took place during the final month of the financial year being reported it was not considered necessary to reflect Dechra's performance against the constituent members of the FTSE 250.



Directors' Remuneration Report continued

Directors' Shareholdings

The beneficial interests of the Directors and their families in the share capital of Dechra Pharmaceuticals PLC as at 30 June 2012 were as follows:

Name	**Ordinary Shares No. 2012**	Ordinary Shares No. 2011
Mike Redmond	**73,417**	56,475
Ian Page	**859,751**	726,282
Simon Evans	**1,032,104**	882,689
Ed Torr	**472,767**	411,381
Bryan Morton (resigned 9 July 2012)	**3,645**	—
Dr Chris Richards	**7,400**	4,000
Neil Warner	**5,448**	4,191

There have been no changes in the holdings of the Directors between 30 June and 4 September 2012.

Contracts of Services

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

Name	Commencement date	Notice Period Director	Notice Period Company
Mike Redmond	25 April 2001	12 months	12 months
Ian Page	1 September 2008	6 months	12 months
Simon Evans	6 February 2009	6 months	12 months
Ed Torr	6 February 2009	6 months	12 months
Bryan Morton (resigned 9 July 2012)	8 January 2010	12 months	12 months
Dr Chris Richards	1 December 2010	12 months	12 months
Neil Warner	2 May 2003	12 months	12 months

There are no expiry dates applicable to either Executive or Non-Executive Directors' service contracts. The Company may, in its absolute discretion at any time after written notice has been given by either party, lawfully terminate the service contract by paying to the Director an amount equal to his basic salary entitlement for the unexpired period of notice (subject to a deduction at source of income tax and National Insurance contributions). In the event that the service contract is terminated before the end of any financial year, the Director shall not be entitled to any bonus in respect of that financial year. Non-Executive Directors have a service contract for an initial 12 month period which is thereafter terminated by either party giving 12 months' notice. Non-Executive Directors' compensation is confined to 12 months' fee.

Individual Directors' eligibility for the various elements of compensation is set out below:

Name	Salary	Bonus	Benefits
Mike Redmond	12 months	n/a	n/a
Ian Page	12 months	Nil	12 months
Simon Evans	12 months	Nil	12 months
Ed Torr	12 months	Nil	12 months
Bryan Morton (resigned 9 July 2012)	12 months	n/a	n/a
Dr Chris Richards	12 months	n/a	n/a
Neil Warner	12 months	n/a	n/a

Where applicable, payment of this compensation would be in full and final settlement of all claims other than in respect of share options or awards and pension arrangements. In an appropriate case 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. No compensation payments were made to Executive or Non-Executive Directors during the year.

Audited Information

The Auditor is required to report on the information contained in the remainder of this report.

Summary of Remuneration

	Salaries & Fees £'000	Bonuses £'000	Other Benefits £'000	**Total 2012 £'000**	Total 2011 £'000
Executive Directors					
Ian Page	377*	225	30	**632**	619
Simon Evans	236	141	26	**403**	396
Ed Torr	225	135	15	**375**	368
Non-Executive Directors					
Mike Redmond	84	—	—	**84**	82
Malcolm Diamon (resigned 5 November 2010)	—	—	—	**—**	15
Bryan Morton (resigned 9 July 2012)	41	—	—	**41**	40
Dr Chris Richards	38	—	—	**38**	22
Neil Warner	41	—	—	**41**	40
	1,042	501	71	**1,614**	1,582

* This includes a salary supplement of £2,509 paid in lieu of employers' pension contribution in excess of the £50,000. Therefore the base salary is £375,064.

The performance conditions attaching to the annual bonus for 2011/2012 are explained on page 65.

Long Term Incentive Plan

Awards made under the LTIP are as follows:

	Award date	Number of shares at 30 June 2011	Granted during the year	Rights Issue adjustment*	Lapsed during the year	Exercised during the year	**Number of shares at 30 June 2012**	Performance period	Share Price at date of award Pence
Ian Page	19 Nov 2008	92,593	—	—	(26,751)	(65,842)	**—**	2008-2011	391.75
	24 Sept 2009	86,861	—	7,714	—	—	**94,575**	2009-2012	404.10
	22 Dec 2010	72,241	—	6,415	—	—	**78,656**	2010-2013	514.00
	7 Sept 2011	—	85,241	7,570	—	—	**92,811**	2011-2014	455.50
		251,695	**85,241**	**21,699**	**(26,751)**	**(65,842)**	**266,042**		
Simon Evans	19 Nov 2008	58,201	—	—	(16,815)	(41,386)	**—**	2008-2011	391.75
	24 Sept 2009	54,599	—	4,848	—	—	**59,447**	2009-2012	404.10
	22 Dec 2010	45,409	—	4,032	—	—	**49,441**	2010-2013	514.00
	7 Sept 2011	—	53,580	4,758	—	—	**58,338**	2011-2014	455.50
		158,209	**53,580**	**13,638**	**(16,815)**	**(41,386)**	**167,226**		
Ed Torr	19 Nov 2008	55,556	—	—	(16,051)	(39,505)	**—**	2008-2011	391.75
	24 Sept 2009	52,117	—	4,628	—	—	**56,745**	2009-2012	404.10
	22 Dec 2010	43,344	—	3,849	—	—	**47,193**	2010-2013	514.00
	7 Sept 2011	—	51,145	4,542	—	—	**55,687**	2011-2014	455.50
		151,017	**51,145**	**13,019**	**(16,051)**	**(39,505)**	**159,625**		

* Outstanding awards were subject to an adjustment following the Rights Issue to reflect the bonus element of the transaction as explained on page 66.

The performance conditions attached to the LTIP are explained on page 65.

Independent verification has also recently been sought from Hewitt New Bridge Street in respect of the satisfaction of the performance targets for awards vesting in September 2012. The 'underpin' condition (the Company's underlying earnings per share has grown by at least RPI plus 3% per annum over the performance period) has been met, however, it has been confirmed that the Company's TSR performance for the three year period to 30 June 2012 fell below the median of the FTSE Small Cap Total Return Index. Therefore no awards will vest on their maturity date.

The aggregate gain made by the Executive Directors on share options exercised during 2012 was £729,997 (2011: £408,459).

Directors' Remuneration Report continued

SAYE Scheme

Directors' entitlements under the SAYE Scheme are as follows:

	Award date	Market price at date of grant Pence	Exercise Price Pence	Exercise dates	At 30 June 2011 Number	Exercised Number	Granted Number	Rights Issue adjust-ment*	Lapsed Number	**At 30 June 2012 Number**
Ian Page	13 Oct 2008	387	315.02*	Dec 2013	4,883	—	—	433	—	**5,316**
Simon Evans	13 Oct 2008	387	315.02*	Dec 2013	4,883	—	—	433	—	**5,316**
Ed Torr	13 Oct 2008	387	315.02	Dec 2011	1,119	(1,119)	—	—	—	**—**
	12 Oct 2009	445	304.92*	Dec 2012	1,640	—	—	145	—	**1,785**
	17 Oct 2011	478	365.59*	Dec 2014	—	—	904	80	—	**984**
					12,525	(1,119)	904	1,091	—	**13,401**

* Outstanding awards were subject to an adjustment following the Rights Issue to reflect the bonus element of the transaction as explained on page 66.

Share Price

The middle market price for the Company's shares on 30 June 2012 was 486p and the range of prices, which have been adjusted to take into account the bonus element of the Rights Issue, during the year was 392.5p to 524.82p.

Pension Entitlement

All Executive Directors were members of the Dechra Pharmaceuticals PLC Group Stakeholder personal pension scheme throughout the year. Contributions made by Dechra Pharmaceuticals PLC on behalf of the Executive Directors during the year are based on a percentage of pensionable salary and were paid as follows:

	Age	**Contributions 2012 £'000**	Contributions 2011 £'000
Ian Page	51	**50**	51
Simon Evans	48	**33**	32
Ed Torr	52	**30**	31
		113	114

From 6 April 2011, the annual allowance for tax relief on pension savings for individuals reduced to £50,000. Since this became effective Ian Page has elected to receive a salary supplement in lieu of the employer contribution over and above the £50,000 limit.

By order of the Board

Dr Christopher Richards
Chairman — Remuneration Committee
4 September 2012

Social, Ethical and Environmental Responsibilities

A responsible approach to our stakeholders and the wider community is considered by the Board to be fundamental 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.

The Board takes ultimate responsibility for Corporate Social Responsibility ("CSR") 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.

The Sustainability Committee (the "Committee") was set up in October 2009. It has terms of reference which were approved by the Board in July 2010, copies of which can be obtained from the Company Secretary or via the Company's website at www.dechra.com. The Committee is chaired by Ed Torr, the nominated Director responsible for environmental policy, and its members are representatives from each of the business units. The Company Secretary is secretary to the Committee. The Committee is responsible for establishing and maintaining the Group social, ethical and environmental policy. The following report details how we have applied the main principles of this policy, a full copy of which can be obtained from the Company Secretary or via the Company website.

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.

As reported in the 2011 Annual Report the Committee has reviewed the way in which donations (either in the form of money or stock) are made by the business units to charities and as a result has established a Group Donations Policy, which became effective 1 July 2011. From this date, the Group will donate annually an aggregate of £10,000 to be split between an animal welfare charity, an environmental charity and an employee nominated charity. All employees within the Group are entitled to nominate a charity or a non-commercial organisation. All 2011 nominations were considered by the Board and the chosen charities were as follows:

Nominated Animal Charity (£2,500)

- The French employees of DVP nominated the LFPC (French League for Protection of Horses): This charity is managed in co-operation with the French Association of Equine Veterinarians. It creates a network of sentinel veterinarians caring for horses in difficult situations.

Far left:
Liz Rawlings, Marketing Communications Manager at DVP UK, presenting a cheque for £2,000 to Mr Len Curtis, MBE, Founder of Donna's Dream House.

Left:
Melinda Poole and Bryan Toliver, employees of DVP US taking part in the Dog and Jog event organised by the company in June 2012.

Environmental Charity (£3,000)

- The employees of Dechra Pharmaceuticals PLC nominated Staffordshire Wildlife Trust: As in previous years Dechra has maintained its investment in the Corporate Membership Scheme for the Staffordshire Wildlife Trust (the "Trust"). The continued support provided by the Company has assisted the Trust to continue with their education, conservation and community projects throughout Staffordshire including the installation of a new play trail at the Wolseley Centre, maintaining and improving the habitat at Highgate Common and the Churnet Valley Living Landscape Project.
- The UK employees of DVP nominated the People Trust for Endangered Species ("PTES"): Since 1977, PTES has been helping to secure a future for many endangered species throughout the world. This trust focuses on specific problems and works to preserve endangered species in their natural habitats. The donation was utilised to help fund trials of hedgehog footprint tunnels that PTES is developing to monitor these animals thereby allowing this trust to evaluate their efforts in improving their habitat.

Social, Ethical and Environmental Responsibilities continued

Employee Charity (£4,000)

- An employee at *NVS* nominated Savana: This Staffordshire based charity supports anyone who has experienced or is affected by any form of sexual violence including rape, sexual, domestic or honour related violence and childhood sexual abuse whether recently or in the past. The donation was spent in full on providing counselling sessions and equated to 50 individual face to face counselling sessions for victims of sexual abuse.
- The UK employees of DVP nominated Donna's Dream House: This charity in Blackpool provides free holiday experiences for children and teenagers with life-threatening illnesses and their families, as well as recently bereaved siblings and their families. The home was closed in December 2011 due to an arson attack so we are pleased that the donation is being utilised to assist with the rebuild.

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 2011/2012 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, ensuring that such stock is not provided to charities where the donation-in-kind could be sold to third parties. 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 of *Atipam*, *Canaural*, *Cleanaural*, *Fucithalmic* and *Sedator*. In addition, DVP UK has provided assistance to GSPCA, an animal charity based in Grenada, which offers free veterinary care to domestic animals on the island with an ongoing neutering programme, by providing supplies of *Clavudale*, *Fiprodog* and *Fiprocat*. *NVS* donated bird feeders and bird food to local schools and conservation organisations.

Environment

- 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 DKK2,500 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.
- Dechra Laboratory Services has maintained its links with local schools by offering a number of work experience placements to eight children from local schools and three veterinary students.

Business Ethics

The Board expects all of the Group's business activities to be conducted in accordance with the highest standards of ethical conduct 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 its expectations in respect of business conduct into a policy known as The Code of Business Conduct (the "Code"). The Code aims to set a standard of conduct which applies throughout the Group and ensures, amongst other things, that:

- all third parties are treated fairly, openly and honestly;
- our employees do not accept or offer bribes, facilitation payments or other inducements; and
- employees must avoid direct and indirect conflicts of interest (and where this is not possible, the employee must follow the procedure set out in the Code in order to ensure that the employee is removed from the position of conflict as soon as possible).

A whistle-blowing policy is also in place whereby employees report, in confidence, any suspected wrongdoings within the business where they feel unable to discuss directly with local management. Details of the whistle-bowing policy are detailed on the Company website at www.dechra.com.

The Dechra Values were launched in June 2011 across the business. A summary of which can be found on page 30. Further information can be obtained via 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 wish to achieve and ultimately exceed.

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. In terms of fuel, waste and travel we can report the following changes:

Fuel

Dechra has recently reviewed the Company Car Scheme and amalgamated the two lower car bands where employees previously had a choice of over 20 car variants. This scheme change will result in over 55% of the Company car fleet converting to a vehicle with emissions of less than 119 CO_2/km over the next two years. A further 19% of the fleet are vehicles of less than 160 CO_2/km. The light commercial fleet of over 130 delivery vans has now integrated an alternative range of vehicles including small VW Caddy vans returning over 46 mpg, as opposed to the previously standard vehicle that delivered only 32 mpg. The HGV fleet has been limited to 53 mph and has subsequently delivered an improvement in fuel efficiency from 9.60 mpg to 9.92 mpg.

Dechra has chosen to maintain its 36 month lease term policy across both the Commercial and Company car fleets to ensure that the business has access to the continued developments in engine technology. Ongoing trials with a single deck trailer to replace double deck trailers are showing promising results. In addition, tractor units are being trialled with the view of replacing two of the existing units during 2012/2013; some of these have returned in excess of 10.5 mpg. The average miles per gallon as at the end of June 2012 and June 2011 were as follows:

	2012	2011
HGV Fleet	**9.92**	9.60
Transit	**32.64**	32.57

The HGV fleet complies with the Euro 5 standard, a European regulation which sets emission limits for each category of pollutant emissions, such as carbon monoxide, nitrogen oxides and combined emissions of hydrocarbons and nitrogen oxides.

Travel

In respect of travel, use of the video conference facilities is recommended as priority over travel. Video conference facilities are installed at *NVS*, DVP UK, DVP US, *Dales* and Uldum, Denmark. On the acquisition of *Eurovet,* video conference facilities were also installed at Bladel, the Netherlands. Whilst the Company appreciates that face to face meetings are beneficial the use of video conference facilities substantially reduces the amount of travel by car and aeroplanes.

Waste

In respect of waste, the Group is a registered member of a compliance scheme in respect of the Waste Packaging Obligations Regulations. In addition, *NVS* operates a recycling programme which ensures that all trunking depots (see page 26) return their general waste to the main depot at Stoke-on-Trent. The general waste is then sorted for collection by third party waste management companies. *Dales* also actively monitors its recycling rates. *Dales* 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 ensure that all contaminated waste is disposed of under strict controls. Furthermore, all exhaust air is fully filtered from the manufacturing unit before discharge into the environment. DVP EU is legally obliged to submit an annual report to the Danish Ministry of Environment in respect of its environmental impact.

	Glass (tonnes)		Cardboard (tonnes)		Plastic (tonnes)		Aluminium cans (tonnes)	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Dales	**8.2**	8.7	**34.2**	30.6	**14.6**	15.8	**—**	—
NVS	**—**	—	**261.1**	276.1	**13.1**	18.4	**0.002**	0.03
DVP EU*	**—**	—	**18.4**	18.5	**13.1**†	9.1†	**—**	—

* data collated on a calendar year basis

† plastic and metal

Social, Ethical and Environmental Responsibilities continued

DVP EU also monitors:

- Annual energy consumption: In 2011, energy consumption totalled 1,474 MWh (compared to 1,748 MWh in 2010). The decrease is primarily due to an increase in outside temperature.
- Water: In 2011, water usage totalled 2,533 m^2 (compared to 2,372 m^2 in 2010). Although there has been a slight increase in usage compared to the previous year, over a five year period the usage has remained relatively stable.

Dales has implemented and embedded a lean manufacturing strategy into its operations, thereby assisting the business in achieving a decrease in the time between placement of the customer order and end product shipment. The implementation of these lean manufacturing principles into the business has provided concrete results to date; specifically the time taken for a product to travel through the manufacturing cycle (from raw materials to stores as a finished product) has reduced during the financial year from an average of 16 to 15 days. Currently 22 employees are working towards a Certificate in Lean Manufacturing (Business Improvement Techniques), which will bring the total trained at the business to 200. *Dales* continues to work towards achievement of its ISO 140001 status.

The Group continues to review its environmental controls and encourage its own staff, suppliers and customers to achieve similar standards.

Health and Safety Policy

The Group attaches great importance to the health and safety of its employees and the public. The management is responsible 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. All of its UK sites are registered with the British Safety Council.

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.

For a number of years the Group has reported Lost Time Accident Frequency Rates ("LTAFR") as a non-financial key performance indicator (see pages 32 to 33). 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. Although the UK reporting requirement for over-three day injuries to workers changed to over-seven day injuries with effect from 6 April 2012, the Company is still obliged to keep a record of any accident if the worker has been incapacitated for more than three consecutive days. Therefore for this reason and for consistency the Company will continue to report 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 15 to 10, none of which resulted in a work-related fatality or disability. It is hoped to reduce this further during the 2012/2013 financial year.

Any material health and safety issues or incidents which occur are discussed in detail at both the monthly 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.

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. During the year an online driver risk assessment was introduced for all Company car and Commercial vehicle drivers. The results of the assessment enables the Company to identify any drivers at risk and to provide further training to those drivers. All new Company car and Commercial vehicle drivers must complete the online driver risk assessment as part of their induction. It is intended that all drivers will be reassessed every three years. The investment so far in respect of the online driver assessments has had a positive impact on the number of insurance claims with both the frequency and severity of accidents having been reduced. This committee has met three times during the year. All issues raised by this committee are reviewed by the Board as part of the bi-annual health and safety review.

Simon Evans is the nominated Director responsible for Health and Safety policy.

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:

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

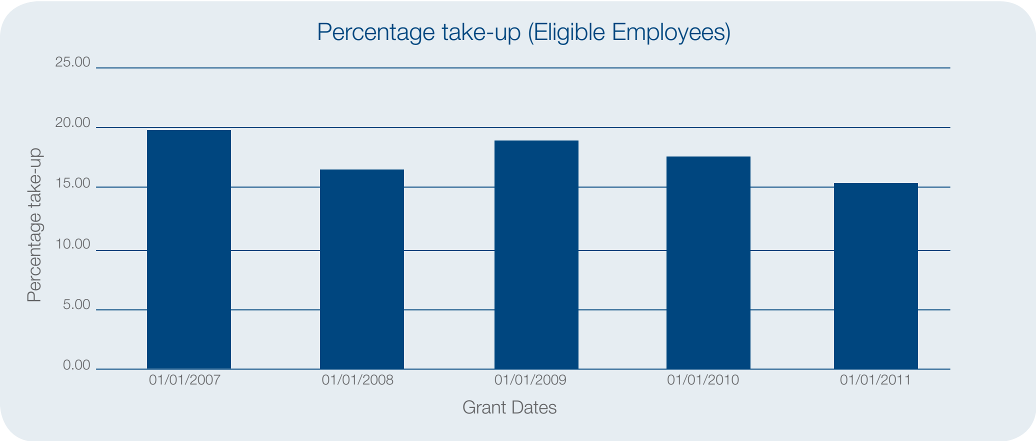
The Group has established a target of no more than 15% Moving Annual Turnover; during the 2011/2012 financial year we achieved 16.10% (2011: 19.03%). This figure includes fixed term contract workers, of which there were six leavers during the year. Excluding these six leavers, the MAT for permanent staff is 15.5%, which is slightly over our target of 15% but below the national CIPD figure of 16.10%.

Dales 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 ("NVQ") as part of their apprenticeship, usually work-based but also involving literacy and numeracy modules. The business continues to support several employees in attaining NVQ Level 2 Performing Manufacturing Operations and Certificate in Process Technology as well as Level 3 in Business Administration. Additionally, two employees are undertaking Foundation Degrees in Chemical Science and another individual is about to complete a Chartered Institute of Purchasing & Supply Level 6 Advanced Diploma. Training in Lean Techniques continues to be rolled out across the workforce and up-skilling key personnel continues with Team Leader and Management Training scheduled over the next financial year.

At *NVS*, one employee has completed the Institute of Payroll Professionals Degree, two employees have completed NVQ Level 2 in Customer Services and two members of the Transport Department have completed the International Certificate of Professional Competence ("CPC") course.

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.

The Group continues to encourage employees to share in the growth of the Company through eligibility to participate in the SAYE Scheme. The SAYE Scheme is currently offered to UK employees only; the take-up for the 2011 grant was 15.34% (2010: 17.38%). Overall 29.45% of UK employees participate within the SAYE Scheme. The graph below shows the percentage of employees who have taken up the SAYE Scheme over the last five years.



Other Disclosures

Principal Activities and Business Review

The Company acts as a holding company to all the Group's subsidiaries. The Group operates under four segments split between Pharmaceuticals and Services.

Pharmaceuticals comprise three segments:

- European Pharmaceuticals: markets and sells licensed branded pharmaceuticals and specialist pet foods to the veterinary profession in Europe. It is a licensed manufacturer of both Dechra's own branded products and products for third party customers.
- US Pharmaceuticals: markets and sells a range of endocrine, ophthalmic, dermatological and equine products into North America.
- Research and Development: develops and licenses Dechra's own branded veterinary product portfolio of novel and generic pharmaceuticals and specialist pet diets.

The fourth segment, Services, distributes veterinary products, including pharmaceuticals, specialist pet diets and instruments to veterinary practices within the United Kingdom. It also provides histology, pathology, haematology, chemistry and microbiology services to veterinary practices.

The Chairman's Statement and the Directors' Business Review can be found on pages 8 to 39 and includes:

- a description of the principal risks and uncertainties faced by the Group;
- an analysis of the development and performance of the Company's business during the financial year;
- the position of the Company's business at the end of the financial year;
- main trends and factors likely to affect the future development, performance and position of the Company's business; and
- financial and non-financial key performance indicators used to measure the Group's performance.

Results and Dividends

The results for the year and financial position at 30 June 2012 are shown in the Consolidated Income Statement on page 83 and Consolidated Statement of Financial Position on page 85. The Directors recommend the payment of a final dividend of 8.50 pence per share which, if approved by Shareholders, will be paid on 23 November 2012 to Shareholders registered at 9 November 2012. The date the shares will become ex-dividend is 7 November 2012. An interim dividend of 3.77 pence per share (restated to take into account the bonus element of the Rights Issue) was paid on 10 April 2012, making a total dividend for the year of 12.27 pence (2011: 11.12 pence restated for the bonus element of the Rights Issue). The total dividend payment is £10,125,000 (2011: £8,039,000).

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 further strengthen the Group's competitive position. Further information in relation to product development can be found on pages 17 to 19. The expense on this activity for the year ended 30 June 2012 was £5,735,000 (2011: £5,221,000) and a further £447,000 (2011: £1,025,000) was capitalised as development costs.

Payment to Suppliers

The Company does not follow any code of practice or standard regarding the payment of suppliers but seeks to agree the terms of payment with suppliers prior to the placing of business and it is the Company's policy to settle liabilities by the due date.
At 30 June 2012, the Group had an average of 71 days (2011: 60 days) purchases outstanding in creditors. The Company has an average of nil days (2011: nil days) purchases outstanding in creditors.

Acquisitions

The acquisitions during the year under review are as follows:

Date of Acquisition	Detail		Consideration
January 2012	HY-50	The worldwide rights (excluding Canada) to *HY-50* were acquired from Bexinc Limited. *HY-50* is used for intra-articular or intravenous treatment of lameness in horses caused by joint dysfunction	A cash consideration of 8.03 million Canadian Dollars. The consideration was funded from the Group's existing cash resources
May 2012	Eurovet Animal Health B.V.	An expert in developing, registering, producing and marketing added value, own label companion and farm animal veterinary pharmaceutical medicines	Consideration of €135 million on a cash free debt free basis. The consideration was funded from the Rights Issue and additional debt facilities

Rights Issue and Share Capital

The issued share capital of the Company for the year is set out in note 23 to the Financial Statements on page 122. As at the end of the financial year, 86,870,176 fully paid ordinary shares were in issue which included 379,864 ordinary shares issued during the year in connection with the exercise of options under the Company's share option schemes. 20,040,653 ordinary shares ("New Ordinary Shares") were offered by way of a Rights Issue at an issue price of 300 pence per share, raising approximately £58.2 million (net of underwriting commission). The Rights Issue was made on the basis of 3 New Ordinary Shares for every 10 existing ordinary shares. The New Ordinary Shares were issued on 16 May 2012 fully paid and rank *pari passu* in all respects with the existing ordinary shares.

The New Ordinary Shares represented less than one-third of the issued share capital prior to the Rights Issue and were issued under an authority given at the Annual General Meeting held on 4 November 2011.

The holders of shares are entitled to receive dividends when declared, to receive the Company's Report and Accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights. There are no restrictions on transfer or limitations on the holding of shares in the Company, nor are there any requirements to obtain prior approval in respect of any transfer of shares. The Directors are not aware of any agreements which limit the transfer of shares or curtail voting rights attached to those shares.

At the Annual General Meeting of the Company held on 4 November 2011, the Company was authorised to purchase up to 6,645,665 of its ordinary shares, representing 10% of the issued share capital of the Company as at 15 September 2011. 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 2011 Annual General Meeting, and also at the General Meeting held in May 2012. Resolutions to renew these authorities will be proposed at the 2012 Annual General Meeting.

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 Services 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 2012		16 August 2012	
	Aggregate Voting Rights	%	Aggregate Voting Rights	%
Schroder Investment Management	15,657,586	18.02	15,357,586	17.68
Legal & General Investment Management	5,193,548	5.98	5,062,024	5.83
Fidelity Investments	4,815,763	5.54	4,820,934	5.55
Invesco Perpetual	4,536,329	5.22	4,420,925	5.09
Aberdeen Asset Management	4,236,400	4.88	4,546,900	5.23
Threadneedle Investments	3,685,285	4.24	3,666,737	4.22
Rathbones	3,440,853	3.96	3,436,888	3.96
Newton Investment Management	3,077,095	3.54	2,942,895	3.39
Scottish Widows	2,988,981	3.44	2,817,651	3.24

Change of Control/Significant Agreements

As detailed in the Going Concern Statement on page 52 the Group has bank facilities with a syndicate of banks comprising Lloyds TSB Bank plc, Barclays Bank PLC, Svenska Handelsbanken AB (PUBL) and HSBC 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 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 constitution of the Board and its Committees, together with biographical notes on the Directors, is shown on pages 40 to 41. Details of Directors' attendance at board and committee meetings and a statement on board evaluation are set out in the Corporate Governance Report, Audit Committee Report and Remuneration Report on pages 44 to 54, 56 and 60.

Under the provisions of the UK Corporate Governance Code, all the Directors will retire at the Annual General Meeting and offer themselves for re-election.

The interests of the Directors in the share capital of the Company are shown in the Remuneration Report on pages 66 to 68. During the year no Director had a disclosable material interest in any contract or arrangement with the Company or any of its subsidiaries. Information in relation to the Directors' remuneration is disclosed in the Remuneration Report.

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.

Directors' and Officers' Liability

The Company maintains an appropriate level of Directors' and Officers' insurance whereby Directors are indemnified against liabilities to third parties to the extent permitted by the Companies Act 2006. The Directors also benefited from qualifying third party indemnity provision in place during the financial year and at the date of this report. A copy of the indemnity provision will be available for inspection at the Annual General Meeting.

The contracts of employment or letters of appointment of the Directors and employees of the Company do not provide for compensation for loss of office that occurs because of a takeover.

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements can be found on page 80.

Charitable Contributions

Charitable donations made during the year in support of charitable causes in the local communities in which the Group operates and those of interest to its employees amounted to £17,796 (2011: £6,234). Further details of donations made by the Group are given on pages 71 to 72.

Political Donations and Expenditure

No political donations were made during the year ended 30 June 2012. 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.

Auditor

A resolution to reappoint KPMG Audit Plc as Auditor of the Company 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 is aware, there is no relevant audit information of which the Auditor is unaware, and each Director has taken all steps that he ought to have undertaken as a Director to make himself aware of any relevant audit information and to establish that the Auditor is aware of that information.

Annual General Meeting

The 2012 Annual General Meeting of the Company will be held at 10.00 am on 19 October 2012 at Investec Bank plc, 2 Gresham Street, London EC2V 7QP. The notice of meeting, which includes special business to be transacted at the Annual General Meeting, is included within the Circular accompanying this Annual Report, together with an explanation of the resolutions to be considered at the meeting.

By order of the Board

Zoe Goulding
Company Secretary
4 September 2012

Statement of Directors' Responsibilities in respect of the Annual Report and 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 and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select 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 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 Required under the Disclosure and Transparency Rules

We confirm to the best of our knowledge:

1 The financial statements, prepared in accordance with the applicable set of accounting standards, 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; and

2 The management report, which comprises the Directors' 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.

Approved by the Board and signed on its behalf by:

Ian Page
Chief Executive
4 September 2012

Simon Evans
Group Finance Director
4 September 2012

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

We have audited the financial statements of Dechra Pharmaceuticals PLC for the year ended 30 June 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Shareholders' Equity, the Consolidated Statement of Cash Flows, the Parent Company Balance Sheet, the Parent Company Reconciliation of Movements in Shareholders' Funds and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 80, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on Financial Statements

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 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- 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.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance statement set out on pages 44 to 54 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structure is consistent with the financial statements.

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

Matters on which we are required to Report by Exception

We have nothing to report in respect of the following:

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; or
- a Corporate Governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 52, in relation to going concern;
- the part of the Corporate Governance Statement on pages 44 to 54 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to Shareholders by the Board on Directors' remuneration.

G Neale

G Neale (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
4 September 2012

Consolidated Income Statement

For the year ended 30 June 2012

	Note	2012 Underlying £'000	2012 Non-underlying items* (notes 4 & 5) £'000	2012 Total £'000	2011 Underlying £'000	2011 Non-underlying items* (notes 4 & 5) £'000	2011 Total £'000
Revenue	2	**426,041**	**–**	**426,041**	389,237	–	389,237
Cost of sales		**(326,782)**	**–**	**(326,782)**	(300,876)	–	(300,876)
Gross profit		**99,259**	**–**	**99,259**	88,361	–	88,361
Distribution costs		**(17,979)**	**–**	**(17,979)**	(17,659)	–	(17,659)
Administrative expenses		**(44,679)**	**(15,711)**	**(60,390)**	(38,879)	(10,105)	(48,984)
Operating profit	2	**36,601**	**(15,711)**	**20,890**	31,823	(10,105)	21,718
Finance income	3	**219**	**–**	**219**	2,144	–	2,144
Finance expense	4	**(3,854)**	**(435)**	**(4,289)**	(3,898)	(1,450)	(5,348)
Profit before taxation	6	**32,966**	**(16,146)**	**16,820**	30,069	(11,555)	18,514
Income tax expense	8	**(8,664)**	**3,593**	**(5,071)**	(7,321)	2,941	(4,380)
Profit for the year attributable to owners of the parent		**24,302**	**(12,553)**	**11,749**	22,748	(8,614)	14,134
Earnings per share							
Basic	10			**15.65p†**			19.59p†
Diluted	10			**15.60p†**			19.53p†
Dividend per share (interim paid and final proposed for the year)	9			**12.27p†**			11.12p†

* Non-underlying items comprise amortisation of acquired intangibles, acquisition expenses, rationalisation costs, loss on extinguishment of debt and the unwinding of discounts on deferred and contingent consideration.

† Restated to reflect the impact of the bonus element of the Rights Issue.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2012

	2012 £'000	2011 £'000
Profit for the year	**11,749**	14,134
Other comprehensive income:		
Effective portion of changes in fair value of cash flow hedges	**(419)**	(684)
Cash flow hedges recycled to income statement	**429**	670
Foreign currency translation differences for foreign operations	**(8,434)**	3,411
Income tax relating to components of other comprehensive income	**(2)**	(4)
Total comprehensive income for the period attributable to owners of the parent	**3,323**	17,527

Consolidated Statement of Financial Position

At 30 June 2012

	Note	2012 £'000	2011 £'000
ASSETS			
Non-current assets			
Intangible assets	11	**225,872**	125,098
Property, plant and equipment	12	**16,720**	7,721
Total non-current assets		**242,592**	132,819
Current assets			
Inventories	15	**57,281**	40,760
Trade and other receivables	16	**72,113**	66,293
Cash and cash equivalents	17	**32,435**	30,496
Total current assets		**161,829**	137,549
Total assets		**404,421**	270,368
LIABILITIES			
Current liabilities			
Borrowings	20	**(5,106)**	(8,502)
Trade and other payables	18	**(79,863)**	(74,559)
Deferred and contingent consideration	28	**(10,337)**	(500)
Current tax liabilities	19	**(8,155)**	(5,391)
Total current liabilities		**(103,461)**	(88,952)
Non-current liabilities			
Borrowings	20	**(114,046)**	(56,085)
Deferred and contingent consideration	28	**(3,526)**	(13,555)
Employee benefit obligations	21	**(363)**	—
Deferred tax liabilities	14	**(29,343)**	(13,443)
Total non-current liabilities		**(147,278)**	(83,083)
Total liabilities		**(250,739)**	(172,035)
Net assets		**153,682**	98,333
EQUITY			
Issued share capital	23	**869**	664
Share premium account		**122,642**	63,559
Hedging reserve		**(286)**	(294)
Foreign currency translation reserve		**(3,683)**	4,751
Merger reserve		**1,770**	1,770
Retained earnings		**32,370**	27,883
Total equity attributable to equity holders of the parent		**153,682**	98,333

The financial statements were approved by the Board of Directors on 4 September 2012 and are signed on its behalf by:

Ian Page
Chief Executive
4 September 2012

Simon Evans
Group Finance Director
4 September 2012

Company number: 3369634

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 30 June 2012

	Attributable to owners of the parent						
Year ended 30 June 2011	Issued share capital £'000	Share premium account £'000	Hedging reserve £'000	Foreign currency translation reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
At 1 July 2010	661	63,021	(276)	1,340	1,770	19,712	86,228
Profit for the period	—	—	—	—	—	14,134	14,134
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	(506)	—	—	—	(506)
Foreign currency translation differences for foreign operations, net of tax	—	—	—	3,411	—	—	3,411
Cash flow hedges recycled to income statement, net of tax	—	—	488	—	—	—	488
Total comprehensive income	—	—	(18)	3,411	—	14,134	17,527
Transactions with owners							
Dividends paid	—	—	—	—	—	(7,221)	(7,221)
Share-based payments	—	—	—	—	—	1,258	1,258
Shares issued	3	538	—	—	—	—	541
Total contributions by and distributions to owners	3	538	—	—	—	(5,963)	(5,422)
At 30 June 2011	664	63,559	(294)	4,751	1,770	27,883	98,333
Year ended 30 June 2012							
At 1 July 2011	664	63,559	(294)	4,751	1,770	27,883	98,333
Profit for the period	—	—	—	—	—	11,749	11,749
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	(335)	—	—	—	(335)
Foreign currency translation differences for foreign operations, net of tax	—	—	—	(8,434)	—	—	(8,434)
Cash flow hedges recycled to income statement, net of tax	—	—	343	—	—	—	343
Total comprehensive income	—	—	8	(8,434)	—	11,749	3,323
Transactions with owners							
Dividends paid	—	—	—	—	—	(8,325)	(8,325)
Share-based payments	—	—	—	—	—	1,063	1,063
Shares issued	205	59,083	—	—	—	—	59,288
Total contributions by and distributions to owners	205	59,083	—	—	—	(7,262)	52,026
At 30 June 2012	869	122,642	(286)	(3,683)	1,770	32,370	153,682

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 2012

	Note	2012 £'000	2011 £'000
Cash flows from operating activities			
Profit for the period		**11,749**	14,134
Adjustments for:			
Depreciation	12	**1,584**	1,535
Amortisation and impairment	11	**12,762**	10,362
Loss on disposal of intangible assets	6	**47**	—
(Gain)/loss on sale of property, plant and equipment	6	**(45)**	1
Finance income	3	**(219)**	(2,144)
Finance expense	4	**4,289**	5,348
Equity settled share-based payment expense	24	**1,001**	830
Income tax expense	8	**5,071**	4,380
Operating cash flow before changes in working capital		**36,239**	34,446
Increase in inventories		**(4,846)**	(4,814)
Increase in trade and other receivables		**(1,827)**	(12,408)
(Decrease)/Increase in trade and other payables		**(438)**	8,150
Cash generated from operating activities before interest and taxation		**29,128**	25,374
Interest paid		**(2,645)**	(3,586)
Income taxes paid		**(7,241)**	(5,034)
Net cash inflow from operating activities		**19,242**	16,754
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**50**	2
Interest received		**219**	957
Acquisition of subsidiaries	28	**(112,221)**	(33,047)
Purchase of property, plant and equipment	12	**(1,645)**	(1,280)
Capitalised development expenditure	11	**(447)**	(1,025)
Purchase of other intangible non-current assets	11	**(6,300)**	(1,785)
Net cash outflow from investing activities		**(120,344)**	(36,178)
Cash flows from financing activities			
Proceeds from the issue of share capital	23	**60,575**	541
Share issue expenses	23	**(1,287)**	—
New borrowings		**120,000**	68,000
Expenses of raising new borrowings		**(2,600)**	(944)
Repayment of borrowings		**(64,328)**	(41,829)
Resetting of foreign currency borrowings		**(327)**	320
Dividends paid	9	**(8,325)**	(7,221)
Net cash inflow from financing activities		**103,708**	18,867
Net increase/(decrease) in cash and cash equivalents		**2,606**	(557)
Cash and cash equivalents at start of period	17	**30,496**	31,502
Exchange differences on cash and cash equivalents		**(667)**	(449)
Cash and cash equivalents at end of period	17	**32,435**	30,496
Reconciliation of net cash flow to movement in net borrowings			
Net increase/(decrease) in cash and cash equivalents		**2,606**	(557)
Repayment of borrowings		**64,328**	41,829
New borrowings		**(120,000)**	(68,000)
Expenses of raising new borrowings		**2,600**	944
New finance leases		**(1,010)**	—
Exchange differences on cash and cash equivalents		**(667)**	(449)
Retranslation of foreign borrowings		**(429)**	254
Other non-cash changes		**(54)**	(1,411)
Movement in net borrowings in the period		**(52,626)**	(27,390)
Net borrowings at start of period	25	**(34,091)**	(6,701)
Net borrowings at end of period	25	**(86,717)**	(34,091)

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 2012 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 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 133 to 141.

(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 Business Review on pages 8 to 39. 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.

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 for consolidated financial statements in conformity with IFRSs requires the use of accounting estimates and for management to exercise its judgement in the process of applying the Group's accounting policies. These judgements and estimates are based on historical experience and management's best knowledge of the amounts, events or actions under review and the actual results may ultimately differ from these estimates. Areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are, where necessary, disclosed separately.

Critical Judgements in applying the Group's Accounting Policies and Key Sources of Estimation Uncertainty

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

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.

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

Impairment of Receivables

The Group has estimated impairment of receivables by assessing recoverability of amounts due on a customer by customer basis. As described in note 22, credit risk is not highly concentrated with the exception of corporate veterinary practices and veterinary wholesalers. If the receivables due from one of these large customers proved to be irrecoverable then an additional impairment provision may be required.

Capitalisation of Development Costs

The Group applies judgement when assessing the probability that regulatory approval will be achieved for development projects and that those projects are commercially viable. This enables management to ascertain whether the criteria for the capitalisation of development costs have been met.

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 2012 but either have no material impact on the result or net assets of the Group or are not applicable.

- IAS 24 (revised) 'Related Party Disclosures' — clarifies disclosure requirements for government related entities and amends the definition of a related party.
- Amendment to IFRS 7 'Disclosures — Transfers of Financial Assets' — the amendments require additional disclosures about transfers of financial assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

In addition to the above, amendments to a number of standards under the annual improvements project to IFRS, which are mandatory for the year ended 30 June 2012, have been adopted in the year.

The adoption of these standards and amendments has not had a material impact on the Group's financial statements.

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.

- Amendment to IAS 1 'Presentation of Items of Other Comprehensive Income' — effective for annual periods beginning on or after 1 July 2012.
- Amendment to IAS 19 'Employee Benefits' — effective for annual periods beginning on or after 1 January 2013.

The Group does not anticipate that the adoption of the above amendments will have a material effect on its financial statements on initial adoption.

(c) Basis of Consolidation

Subsidiary Undertakings

Subsidiary undertakings are fully consolidated from the date on which control is transferred to the Group. They cease to be consolidated from the date that the Group no longer has control. All subsidiary undertakings have been consolidated.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

The financial statements of all subsidiary undertakings are prepared to the same reporting date as the Company with the exception of the recently acquired *Eurovet* companies, whose reporting dates will be brought in line with the Company over the course of the 2012/2013 financial year.

Notes to the Consolidated Financial Statements continued

1. Accounting Policies continued

(d) Foreign Currency Translation

(i) Functional and Presentational Currency

The consolidated financial statements are presented in Sterling, which is the Group's presentational currency and are rounded to the nearest 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.

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.

1. **Accounting Policies** continued

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 receivables are recognised and carried at original invoice amount less provision for impairment. 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	3–10 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.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 July 2004 were not reconsidered in preparing the Group's opening IFRS balance sheet at 1 July 2004.

For acquisitions prior to 1 July 2009, costs directly attributable to business combinations formed part of the consideration payable when calculating goodwill. Adjustments to contingent consideration, and therefore the consideration payable and goodwill, are made at each reporting date until the consideration is fully determined.

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 and re-measured at each reporting date.

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. Internally generated costs of development are capitalised 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. 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.

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 years
• capitalised development costs	5–10 years or period of patent
• patent rights	Period of patent
• marketing authorisations	Indefinite life
• product rights	10–15 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 of 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.

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 consolidated statement of financial position date.

(m) Revenue recognition

Revenue comprises the fair value of goods sold and services provided to external customers, net of value added tax, rebates, promotions and returns. For both Pharmaceuticals and Services, revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. This is normally when the buyer takes delivery of the goods.

For services provided, revenue is recognised when the contractual service has been provided to the customer. No revenue is recognised where the recovery of the consideration is not probable or where there are significant uncertainties regarding associated costs or the possible return of goods.

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 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.

There was a Rights Issue during the year ended 30 June 2012 and EPS figures have been restated to reflect the bonus element of this issue.

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

2. Operating Segments

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

The Services segment comprises National Veterinary Services, Dechra Laboratory Services and Dechra Specialist Laboratories. This segment services UK veterinary practices in both the companion animal and livestock sectors.

The European Pharmaceuticals segment comprises Dechra Veterinary Products EU, *Eurovet* and Dechra Manufacturing. Dechra Manufacturing manufactures the vast majority of our own branded licensed pharmaceutical products, which are marketed through DVP EU and *Eurovet*. This segment operates internationally and is unique in having its sole area of specialisation in companion animal products.

The US Pharmaceuticals segment consists of Dechra Veterinary Products US which sells companion animal pharmaceuticals into that territory.

The Pharmaceuticals research and development segment includes all of the Group's pharmaceutical research and development activities.

There are varying levels of intersegment trading. Intersegment pricing is determined on an arm's length basis.

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:

		2012 £'000	2011 £'000
Revenue by segment			
Services	— total	**315,672**	296,258
	— intersegment	**(518)**	(190)
European Pharmaceuticals	— total	**104,764**	89,287
	— intersegment	**(13,443)**	(12,225)
US Pharmaceuticals	— total	**20,363**	16,107
	— intersegment	**(797)**	—
		426,041	389,237
Operating profit/(loss) by segment			
Services		**11,056**	13,087
European Pharmaceuticals		**28,904**	22,506
US Pharmaceuticals		**5,863**	4,838
Pharmaceuticals research and development		**(5,735)**	(5,221)
Segment operating profit		**40,088**	35,210
Corporate and other unallocated costs		**(3,487)**	(3,387)
Underlying operating profit		**36,601**	31,823
Amortisation of acquired intangibles		**(10,871)**	(8,938)
Rationalisation costs		**(2,525)**	(474)
Acquisition costs		**(2,315)**	(693)
Total operating profit		**20,890**	21,718
Finance income		**219**	2,144
Finance expense		**(4,289)**	(5,348)
Profit before taxation		**16,820**	18,514
Total liabilities by segment			
Services		**(55,244)**	(58,337)
European Pharmaceuticals		**(22,058)**	(14,465)
US Pharmaceuticals		**(14,221)**	(13,837)
Pharmaceuticals research and development		**(685)**	(654)
Segment liabilities		**(92,208)**	(87,293)
Corporate loans and revolving credit facility		**(118,229)**	(63,814)
Corporate accruals and other payables		**(2,804)**	(2,094)
Current and deferred tax liabilities		**(37,498)**	(18,834)
		(250,739)	(172,035)
Additions to intangible non-current assets by segment			
Services		**211**	158
European Pharmaceuticals		**121,140**	8,244
US Pharmaceuticals		**—**	40,056
Pharmaceuticals research and development		**447**	1,212
		121,798	49,670

2. Operating Segments continued

	2012 £'000	2011 £'000
Additions to Property, Plant and Equipment by segment		
Services	**484**	280
European Pharmaceuticals	**10,469**	874
US Pharmaceuticals	**10**	63
Pharmaceuticals research and development	**136**	86
	11,099	1,303
Depreciation and amortisation by segment		
Services	**700**	438
European Pharmaceuticals	**10,524**	9,091
US Pharmaceuticals	**2,800**	1,961
Pharmaceuticals research and development	**322**	407
	14,346	11,897

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:

	2012 Revenue £'000	2012 Non-current assets £'000	2011 Revenue £'000	2011 Non-current assets £'000
UK	**322,063**	**24,164**	305,737	29,156
Rest of Europe	**72,358**	**180,654**	56,452	66,954
USA	**25,857**	**37,774**	16,107	36,709
Rest of World	**5,763**	**—**	10,941	—
	426,041	**242,592**	389,237	132,819

No customer accounted for more than 10% of total Group revenue.

3. Finance Income

Recognised in profit or loss	2012 £'000	2011 £'000
Finance income arising from:		
— Cash and cash equivalents	**120**	1,113
— Loans and receivables	**89**	32
— Foreign exchange gains	**—**	999
— Return on employee benefit scheme assets	**10**	—
	219	2,144

Notes to the Consolidated Financial Statements
continued

4. Finance Expense

Underlying	2012 £'000	2011 £'000
Finance expense arising from:		
— Financial liabilities at amortised cost	**2,944**	3,898
— Interest cost in relation to employee benefit obligations	**12**	—
— Foreign exchange losses	**898**	—
Underlying finance expense	**3,854**	3,898

Non-underlying	2012 £'000	2011 £'000
Loss on extinguishment of debt	**158**	1,256
Unwinding of discounts on deferred and contingent consideration	**277**	194
Non-underlying finance expense	**435**	1,450
Total finance expense	**4,289**	5,348

5. Non-underlying Items

Non-underlying items comprise:

	2012 £'000	2011 £'000
Amortisation of intangible assets acquired as a result of acquisitions	**10,871**	8,938
Rationalisation costs	**2,525**	474
Expenses of the acquisition of DermaPet Inc.	**—**	585
Expenses of the acquisition of Genitrix Limited	**—**	108
Expenses of the acquisition of Eurovet Animal Health B.V.	**2,315**	—
	15,711	10,105

Rationalisation costs in 2012 relate to the integration of *Eurovet* Animal Health B.V. This consists primarily of the costs incurred in relation to the rationalisation of the four duplicated sales offices and associated sales teams.

Rationalisation costs in 2011 relate to the integration of *DermaPet* Inc. and *Genitrix* Limited.

6. Profit Before Taxation

The following items have been included in arriving at profit before taxation:

	2012 £'000	2011 £'000
Cost of inventories recognised as an expense	**323,478**	298,105
Impairment of inventories included in above figure	**942**	558
Depreciation of property, plant and equipment		
— owned assets	**1,381**	1,288
— under finance leases	**203**	247
Amortisation of intangible assets	**12,762**	10,362
Loss on disposal of intangible assets	**47**	—
(Profit)/loss on disposal of property, plant and equipment	**(45)**	1
Impairment of receivables	**207**	573
Operating lease rentals payable	**4,064**	3,905
Research and development expenditure as incurred	**5,735**	5,221
Auditor's remuneration	**1,073**	1,087
Analysis of total fees paid to the Auditor:		
Audit of these financial statements	**50**	42
Audit of financial statements of subsidiaries pursuant to legislation	**225**	185
Other services pursuant to legislation	**29**	51
Other services relating to taxation	**103**	237
Other services relating to acquisitions	**666**	572
	1,073	1,087

7. Employees

The average numbers of staff employed by the Group during the year, which includes Directors, were:

	2012 Number	2011 Number
Manufacturing	**237**	221
Distribution	**394**	409
Administration	**411**	375
	1,042	1,005

The costs incurred in respect of these employees were:

	2012 £'000	2011 £'000
Wages and salaries	**30,797**	27,712
Social security costs	**3,483**	3,036
Other pension costs	**1,757**	1,552
Share-based payments charge (see note 24)	**977**	948
	37,014	33,248

Notes to the Consolidated Financial Statements continued

7. Employees continued

Related party transactions — the remuneration of key management was as follows:

	2012 £'000	2011 £'000
Wages and salaries (including benefits in kind)	**2,766**	2,569
Social security costs	**354**	337
Other pension costs	**208**	190
Share-based payments charge	**757**	586
Non-Executive Directors' fees	**204**	199
	4,289	3,881

Key management comprises the Board and the senior management team.

Details of the remuneration, shareholdings, share options and pension contributions of the Executive Directors are included in the Directors' Remuneration Report on pages 59 to 70.

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 £1,757,000 (2011: £1,552,000).

8. Income Tax Expense

		2012 £'000	2011 £'000
Current tax	— UK corporation tax	**5,034**	4,551
	— overseas tax at prevailing local rates	**2,937**	2,134
	— adjustment in respect of prior years	**126**	(728)
Total current tax expense		**8,097**	5,957
Deferred tax	— origination and reversal of temporary differences	**(3,695)**	(1,874)
	— adjustment in respect of prior years	**669**	297
Total deferred tax expense		**(3,026)**	(1,577)
Total income tax expense in the income statement		**5,071**	4,380

The tax on the Group's profit before tax differs from the standard rate of UK corporation tax of 25.5% (2011: 27.5%). The differences are explained below:

	2012 £'000	2011 £'000
Profit before taxation	**16,820**	18,514
Tax at 25.5% (2011: 27.5%)	**4,289**	5,091
Effect of:		
— depreciation on assets not eligible for tax allowances	**—**	8
— disallowable expenses	**369**	450
— over recovery of deferred tax on share-based payments	**—**	(28)
— research and development tax credits	**(181)**	(50)
— differences on overseas tax rates	**(175)**	(165)
— adjustments in respect of prior years	**795**	(431)
— non-taxable foreign exchange losses/(gains)	**304**	(495)
— change in UK tax rate	**(330)**	—
Total income tax expense	**5,071**	4,380

8. Income Tax Expense continued

Tax Recognised Directly in Equity

	2012 £'000	2011 £'000
Deferred tax on effective portion of changes in fair value of cash flow hedges	**(2)**	(4)
Tax recognised in statement of comprehensive income	**(2)**	(4)
Corporation tax on equity settled transactions	**143**	193
Deferred tax on equity settled transactions	**(77)**	166
Deferred tax movement on foreign currency translation	**(1,682)**	1,140
Total tax recognised in equity	**(1,618)**	1,495

The Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively.

This will reduce the Group's future current tax charge accordingly and further reduce the deferred tax liability at 30 June 2012 (which has been calculated based on the rate of 24% substantively enacted at 30 June 2012) by £100,000.

It has not yet been possible to quantify the full anticipated effect of the announced further 1% rate reduction, although this will further reduce the Group's future current tax charge and reduce the Group's deferred tax liability accordingly.

9. Dividends

	2012 £'000	2011 £'000
Final dividend paid in respect of prior year but not recognised as a liability in that year: 7.72p* per share (2011: 6.61p*)	**5,584**	4,764
Interim dividend paid: 3.77p* per share (2011: 3.40p*)	**2,741**	2,457
Total dividend 11.49p* per share (2011: 10.01p*) recognised as distributions to equity holders in the period	**8,325**	7,221
Proposed final dividend for the year ended 30 June 2012: 8.50p per share (2011: 7.72p*)	**7,384**	5,582
Total dividend paid and proposed for the year ended 30 June 2012: 12.27p* per share (2011: 11.12p*)	**10,125**	8,039

* Restated to reflect the impact of the bonus element of the Rights Issue.

In accordance with IAS 10 'Events After the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2012 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 2013.

The final dividend for the year ended 30 June 2011 is shown as a deduction from equity in the year ended 30 June 2012.

Notes to the Consolidated Financial Statements
continued

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.

	2012 Pence	2011 Pence
Basic earnings per share		
— Underlying*	**32.37**†	31.53†
— Basic	**15.65**†	19.59†
Diluted earnings per share		
— Underlying*	**32.27**†	31.43†
— Diluted	**15.60**†	19.53†

The calculations of basic and diluted earnings per share are based upon:

	£'000	£'000
Earnings for underlying basic and underlying diluted earnings per share	**24,302**	22,748
Earnings for basic and diluted earnings per share	**11,749**	14,134

	No.	No.
Weighted average number of ordinary shares for basic earnings per share	**75,082,169**	72,138,011†
Impact of share options	**224,690**	240,643†
Weighted average number of ordinary shares for diluted earnings per share	**75,306,859**	72,378,654†

* Underlying measures exclude non-underlying items as defined on the consolidated income statement.

† Restated to reflect the impact of the bonus element of the Rights Issue.

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 2010	20,496	2,522	5,856	2,859	853	66,759	99,345
Additions	—	964	1,025	821	—	—	2,810
Acquisitions through business combinations	2,171	—	184	—	—	44,505	46,860
Disposals	—	—	—	—	—	—	—
Foreign exchange adjustments	1,582	62	37	—	—	3,738	5,419
At 30 June 2011 and 1 July 2011	24,249	3,548	7,102	3,680	853	115,002	154,434
Additions	—	1,186	447	—	—	5,114	6,747
Acquisitions through business combinations	36,348	74	—	—	—	78,629	115,051
Disposals	—	—	(61)	—	—	—	(61)
Foreign exchange adjustments	(2,676)	(152)	(48)	—	—	(5,339)	(8,215)
At 30 June 2012	**57,921**	**4,656**	**7,440**	**3,680**	**853**	**193,406**	**267,956**
Amortisation							
At 1 July 2010	—	754	1,234	571	—	16,415	18,974
Charge for the year	—	316	881	227	—	8,938	10,362
At 30 June 2011 and 1 July 2011	—	1,070	2,115	798	—	25,353	29,336
Charge for the year	—	551	1,005	335	—	10,871	12,762
Disposals	—	—	(14)	—	—	—	(14)
At 30 June 2012	**—**	**1,621**	**3,106**	**1,133**	**—**	**36,224**	**42,084**
Net book value							
At 30 June 2012	**57,921**	**3,035**	**4,334**	**2,547**	**853**	**157,182**	**225,872**
At 30 June 2011 and 1 July 2011	24,249	2,478	4,987	2,882	853	89,649	125,098
At 30 June 2010	20,496	1,768	4,622	2,288	853	50,344	80,371

	2012 £'000	2011 £'000
Contracted capital commitments	**616**	609
Software assets in the course of construction included above	**638**	857

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 2010	—	66,382	377	66,759
Acquisitions through business combinations	—	44,505	—	44,505
Foreign exchange adjustments	—	3,738	—	3,738
At 30 June 2011 and 1 July 2011	—	114,625	377	115,002
Additions	—	5,114	—	5,114
Acquisitions through business combinations	24,080	54,549	—	78,629
Foreign exchange adjustments	(1,635)	(3,704)	—	(5,339)
At 30 June 2012	**22,445**	**170,584**	**377**	**193,406**
Amortisation				
At 1 July 2010	—	16,299	116	16,415
Charge for the year	—	8,900	38	8,938
At 30 June 2011 and 1 July 2011	—	25,199	154	25,353
Charge for the year	—	10,833	38	10,871
At 30 June 2012	—	**36,032**	**192**	**36,224**
Net book value				
At 30 June 2012	**22,445**	**134,552**	**185**	**157,182**
At 30 June 2011 and 1 July 2011	—	89,426	223	89,649
At 30 June 2010	—	50,083	261	50,344

The amortisation charge is recognised within administrative expenses in the 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 2012 was £145.1 million with a remaining amortisation period of 5½ years, 13½ years, 8½ years and 10 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 2012 was £1.7 million and £4.9 million with a remaining amortisation period of 11 years and 9½ years respectively.

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 2012 was £1.5 million with a remaining amortisation period of 6½ years. The rights to *Equidone,* which was launched in the US during 2011, has a carrying value of £0.7 million with an amortisation period of 9 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 2010	2,256	3,327	201	10,341	16,125
Additions	1	65	—	1,214	1,280
Acquisitions through business combinations	—	—	4	19	23
Disposals	—	(10)	—	(240)	(250)
Foreign exchange adjustments	190	—	—	93	283
At 30 June 2011 and 1 July 2011	2,447	3,382	205	11,427	17,461
Additions	34	77	—	1,534	1,645
Acquisitions through business combinations	6,749	—	14	2,691	9,454
Disposals	—	—	(2)	(218)	(220)
Foreign exchange adjustments	(353)	—	—	(158)	(511)
At 30 June 2012	**8,877**	**3,459**	**217**	**15,276**	**27,829**
Depreciation					
At 1 July 2010	334	1,250	201	6,667	8,452
Charge for the year	137	216	—	1,182	1,535
Disposals	—	(10)	—	(237)	(247)
At 30 June 2011 and 1 July 2011	471	1,456	201	7,612	9,740
Charge for the year	176	219	2	1,187	1,584
Disposals	—	—	—	(215)	(215)
At 30 June 2012	**647**	**1,675**	**203**	**8,584**	**11,109**
Net book value					
At 30 June 2012	**8,230**	**1,784**	**14**	**6,692**	**16,720**
At 30 June 2011 and 1 July 2011	1,976	1,926	4	3,815	7,721
At 30 June 2010	1,922	2,077	—	3,674	7,673
Net book value of assets held under finance leases					
At 30 June 2012	**—**	**32**	**—**	**371**	**403**
At 30 June 2011 and 1 July 2011	—	40	—	568	608
At 30 June 2010	—	47	—	751	798

	2012 £'000	2011 £'000
Contracted capital commitments	**366**	77

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. 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 5% (2011: 5%) per annum up to year five and thereafter a growth rate of 0% (2011: 0%) per annum into perpetuity which is considered to be consistent with the long term average growth rate for the industry.

The business plan has been formulated based on various factors, including market growth forecasts, the experience of the impact of previous recessions 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 the Group's weighted average cost of capital, 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 2012 for the following assets:

(a) Goodwill

Cash-generating unit	**2012** Carrying value £'000	**2012** Pre-tax discount rate %	2011 Carrying value £'000	2011 Pre-tax discount rate %
Dechra Veterinary Products EU	**52,749**	**8.90**	19,085	9.87
Dechra Veterinary Products US	**320**	**9.52**	312	10.65
Laboratories	**2,621**	**9.87**	2,621	10.83
Dales	**2,231**	**8.70**	2,231	9.62

(b) Indefinite Life Assets

Asset	**2012** Carrying value £'000	**2012** Pre-tax discount rate %	2011 Carrying value £'000	2011 Pre-tax discount rate %
Vetivex licences	**822**	**8.90**	822	9.87

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	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000
Intangible assets	**—**	—	**(29,984)**	(14,204)	**(29,984)**	(14,204)
Property, plant and equipment	**—**	—	**(1,691)**	(550)	**(1,691)**	(550)
Inventories	**1,178**	478	**—**	—	**1,178**	478
Receivables	**—**	41	**—**	—	**—**	41
Payables	**435**	161	**(168)**	(230)	**267**	(69)
Share-based payments	**813**	861	**—**	—	**813**	861
Employee benefit obligations	**74**	—	**—**	—	**74**	—
	2,500	1,541	**(31,843)**	(14,984)	**(29,343)**	(13,443)

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 (2011: £nil). The estimated unprovided deferred tax liability in relation to these temporary differences is £nil (2011: £nil). Deferred tax assets in relation to losses amounting to £368,000 (2011: £nil) have not been recognised due to uncertainty over their recoverability.

(c) Movements During the Year

	Balance at 1 July 2010 £'000	Recognised in income £'000	Acquisitions £'000	Recognised in equity £'000	Foreign exchange adjustments £'000	Balance at 30 June 2011 £'000
Intangible assets	(13,217)	1,699	(1,546)	—	(1,140)	(14,204)
Property, plant and equipment	(556)	6	—	—	—	(550)
Inventories	548	(70)	—	—	—	478
Receivables	49	(8)	—	—	—	41
Payables	80	(145)	—	(4)	—	(69)
Share-based payments	600	95	—	166	—	861
	(12,496)	1,577	(1,546)	162	(1,140)	(13,443)

	Balance at 1 July 2011 £'000	Recognised in income £'000	Acquisitions £'000	Recognised in equity £'000	Foreign exchange adjustments £'000	**Balance at 30 June 2012 £'000**
Intangible assets	(14,204)	2,826	(20,205)	—	1,599	**(29,984)**
Property, plant and equipment	(550)	(389)	(835)	—	83	**(1,691)**
Inventories	478	700	—	—	—	**1,178**
Receivables	41	(41)	—	—	—	**—**
Payables	(69)	(99)	435	—	—	**267**
Employee benefit obligations	—	—	74	—	—	**74**
Share-based payments	861	29	—	(77)	—	**813**
	(13,443)	3,026	(20,531)	(77)	1,682	**(29,343)**

Notes to the Consolidated Financial Statements
continued

15. Inventories

	2012 £'000	2011 £'000
Raw materials and consumables	**7,732**	5,170
Work in progress	**1,661**	371
Finished goods and goods for resale	**47,888**	35,219
	57,281	40,760

16. Trade and Other Receivables

	2012 £'000	2011 £'000
Trade receivables	**69,596**	62,212
Other receivables	**965**	2,492
Prepayments and accrued income	**1,552**	1,589
	72,113	66,293

17. Cash and Cash Equivalents

	2012 £'000	2011 £'000
Cash at bank and in hand	**32,435**	30,496

18. Trade and Other Payables

	2012 £'000	2011 £'000
Trade payables	**63,559**	63,213
Other payables	**6,745**	4,770
Derivative financial instruments	**387**	397
Other taxation and social security	**3,402**	3,827
Accruals and deferred income	**5,770**	2,352
	79,863	74,559

19. Current Tax Liabilities

	2012 £'000	2011 £'000
Corporation tax payable	**8,155**	5,391

20. Borrowings

	2012 £'000	2011 £'000
Current liabilities:		
Bank loans	**5,000**	8,000
Finance lease obligations	**695**	502
Arrangement fees netted off	**(589)**	—
	5,106	8,502
Non-current liabilities:		
Bank loans	**115,757**	55,746
Finance lease obligations	**246**	339
Arrangement fees netted off	**(1,957)**	—
	114,046	56,085
Total borrowings	**119,152**	64,587

On 4 April 2012, the Group refinanced its existing bank facility, which gave rise to a loss on extinguishment of debt of £158,000. The Group's revised borrowing facilities comprise a term loan of £55 million payable over 4½ years, a £65 million revolving credit facility committed until 31 October 2016, an overdraft facility of £10 million (currently unutilised) renewable on 1 April 2013 and various finance lease obligations.

At the year end, the Group had the following unutilised borrowing facilities:

	2012 £'000	2011 £'000
Bank overdraft facility	**10,000**	10,000
Revolving credit facility	**—**	254

The term loan, revolving credit and overdraft facilities are secured by a fixed and floating charge on the assets of the Group. Interest is charged at 2.50% over LIBOR in respect of the term loan and revolving credit facility and 2.50% over base rate in respect of the overdraft facility. No covenants have been breached during the year ended 30 June 2012.

The maturity of the bank loans and overdrafts is as follows:

	2012 £'000	2011 £'000
Payable:		
Within one year	**5,000**	8,000
Between one and two years	**10,000**	8,000
Between two and five years	**105,757**	47,746
Due after five years	**—**	—
	120,757	63,746

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	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Within one year	**730**	543	**695**	502
Between one and two years	**217**	343	**210**	335
Between two and five years	**36**	4	**36**	4
Total minimum lease payments	**983**	890	**941**	841
Future finance charges	**(42)**	(49)	**—**	—
Present value of lease obligations	**941**	841	**941**	841

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 £61,000 for employees in the Netherlands and Germany and early retirement plan provisions in Germany of £2,000 are recognised within other payables in the statement of financial position as at 30 June 2012.

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:

	2012
Discount rate	**4.60%**
Expected return on assets	**4.60%**
Inflation assumption	**1.90%**
Salary growth	**2.40%**
Rate of increase in accrued pensions of active members	**1.90%**
Rate of increase in pensions in payment	**0.00%**
Rate of increase in pensions in deferment	**0.00%**

21. Employee Benefit Obligations continued

In valuing the liabilities of the pension scheme at 30 June 2012, mortality assumptions have been made as indicated below.

The mortality assumption follows the AG Prognosetafel 2010-2060 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.

	2012 £'000
Present value of funded defined benefit obligations	(2,801)
Fair value of scheme assets	2,438
Net pension scheme deficit	**(363)**

Movements in Present Value of Defined Benefit Obligations

	2012 £'000
Defined benefit obligation at acquisition	2,745
Service cost	37
Interest cost	12
Employee contributions	7
Defined benefit obligations at end of the period	**2,801**

Movements in Fair Value of Scheme Assets

	2012 £'000
Fair value of scheme assets at acquisition	2,404
Expected return on scheme assets	10
Additional charges	(23)
Employer contributions	40
Employee contributions	7
Fair value of scheme assets at end of the period	**2,438**

Analysis of the Amount Charged to the Income Statement

	2012 £'000
Service cost	37
Expected return on assets	(10)
Interest on liabilities	12
Insurance charges	23
Net pension expense	**62**

Notes to the Consolidated Financial Statements
continued

21. Employee Benefit Obligations continued

Scheme Assets

The Group's defined benefit pension scheme in the Netherlands is financed through an insurance contract. Under this contract, a market price for the assets in respect of this insurance contract is not available. In accordance with IAS 19 for such insurance policies, an asset value has been calculated by discounting expected future cash flows. The discount rate used for this calculation reflects the risk associated with the scheme assets and the maturity or expected disposal date of those assets.

The fair value of the scheme's assets is as follows:

	2012 £'000
Discount rate used to value assets	**4.60%**
Total fair value of assets	**2,438**
Actual return on scheme assets	**10**

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 30 June 2012. 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 contributions expected to be paid into the scheme for the next financial period amount to £480,000.

History of Amounts in the Current Period

	2012 £'000
Present value of funded defined benefit obligations	**(2,801)**
Fair value of scheme assets	**2,438**
Deficit in the scheme	**(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.

Treasury activities are governed by policies and procedures approved by the Board of Directors.

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 2012, net borrowings were £86.7 million, whilst Shareholders' equity was £153.7 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 monitors both the demographic spread of Shareholders, as well as the return on capital, which the Group defines as total Shareholder return.

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. Current economic conditions mean that it is more difficult and expensive to obtain finance via borrowings.

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 2012 and 2011. There were no changes in the Group's approach to capital management during the year.

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 forecasts identifying the liquidity requirements of the Group are produced 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:

- £55 million term loan
- £65 million revolving credit facility
- £10 million working capital facility
- various finance leases

The Group's undrawn borrowing facilities at 30 June 2012 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 term loan and revolving credit facility by means of an interest rate swap arrangement whereby the Group's exposure to fluctuations in LIBOR is fixed at a rate of 1.6875% on the term loan and 1.185% on the revolving credit facility. The amount of the term loan and revolving credit outstanding at 30 June 2012 was £120.8 million. The hedge is in place until 31 December 2013 and the amount hedged matches the repayment profile of the loan.

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 £102,996,000 (2011: £95,200,000) which is the total carrying value of the Group's financial assets.

Cash is only deposited with highly rated banks.

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 Services segment are UK veterinary practices. The customer base is diverse and, with the exception of the largest corporate accounts, the failure of a single customer would not have a material adverse impact on the Group's financial results.

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 accounted for approximately 13.4% of gross trade receivables at 30 June 2012 (2011: 13.1%). 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 2012 and 30 June 2011.

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 2011 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:

	2012 Carrying value £'000	**2012** Fair value £'000	2011 Carrying value £'000	2011 Fair value £'000
Financial assets				
Cash and cash equivalents	**32,435**	**32,435**	30,496	30,496
	32,435	**32,435**	30,496	30,496
Loans and receivables				
— trade receivables	**69,596**	**69,596**	62,212	62,212
— other receivables	**965**	**965**	2,492	2,492
	70,561	**70,561**	64,704	64,704
Total financial assets	**102,996**	**102,996**	95,200	95,200
Financial liabilities				
Bank loans and overdrafts	**(120,757)**	**(120,757)**	(63,746)	(62,026)
Held for trading financial liabilities				
— derivatives designated as hedges	**(387)**	**(387)**	(397)	(397)
Finance lease liabilities	**(941)**	**(938)**	(841)	(799)
Trade payables	**(63,559)**	**(63,559)**	(63,213)	(63,213)
Other payables	**(13,222)**	**(13,222)**	(7,122)	(7,122)
Deferred and contingent consideration	**(13,863)**	**(13,863)**	(14,055)	(14,055)
Total financial liabilities	**(212,729)**	**(212,726)**	(149,374)	(147,612)
Net financial liabilities	**(109,733)**	**(109,730)**	(54,174)	(52,412)

Fair Value Hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 — quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 — inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 — inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30 June 2012	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Derivative financial liabilities	**—**	**(387)**	**—**	**(387)**
Deferred and contingent consideration	**—**	**—**	**(13,863)**	**(13,863)**
Total	**—**	**(387)**	**(13,863)**	**(14,250)**

30 June 2011	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Derivative financial liabilities	—	(397)	—	(397)
Deferred and contingent consideration	—	—	(14,055)	(14,055)
Total	—	(397)	(14,055)	(14,452)

Movements in deferred and contingent consideration consists of a £0.5 million payment made under the terms of the *Genitrix* acquisition and a £0.3 million increase in relation to the *DermaPet* acquisition due to unwinding of discount.

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:

	2012 £'000	2011 £'000
Overdue by:		
Up to one month	5,810	3,731
Between one and two months	983	1,276
Between two and three months	644	1,005
Over three months	2,649	1,764
	10,086	7,776

The movement in the impairment provision was as follows:

	2012 £'000	2011 £'000
At start of period	2,911	2,383
Impairment provision recognised	231	716
Impairment provision utilised	(265)	(188)
At end of period	2,877	2,911

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 2012 and 30 June 2011. Where interest is at floating rates, the future interest payments have been estimated using current interest rates:

At 30 June 2012	Deferred and Contingent Consideration £'000	Bank Loans and Overdrafts £'000	Finance Leases £'000	Trade and other payables £'000	Total £'000
Carrying value	(13,863)	(118,211)	(941)	(76,781)	(209,796)
Arrangement fees netted off	—	(2,546)	—	—	(2,546)
Future interest	(467)	(6,056)	(42)	—	(6,565)
Total committed cash flow	(14,330)	(126,813)	(983)	(76,781)	(218,907)
Payable:					
Within 6 months	—	(756)	(365)	(76,781)	(77,902)
Between 6 months and 1 year	(10,336)	(6,760)	(365)	—	(17,461)
Between 1 and 2 years	—	(11,666)	(217)	—	(11,883)
Between 2 and 3 years	(3,994)	(11,315)	(36)	—	(15,345)
Between 3 and 4 years	—	(15,921)	—	—	(15,921)
Between 4 and 5 years	—	(80,395)	—	—	(80,395)
Over 5 years	—	—	—	—	—
	(14,330)	(126,813)	(983)	(76,781)	(218,907)

Notes to the Consolidated Financial Statements continued

22. Financial Instruments and Related Disclosures continued

At 30 June 2011	Deferred and Contingent Consideration £'000	Bank Loans and Overdrafts £'000	Finance Leases £'000	Trade and other payables £'000	Total £'000
Carrying value	(14,055)	(63,746)	(841)	(70,335)	(148,977)
Future interest	(839)	(2,825)	(49)	—	(3,713)
Total committed cash flow	(14,894)	(66,571)	(890)	(70,335)	(152,690)
Payable:					
Within 6 months	—	(4,532)	(271)	(70,335)	(75,138)
Between 6 months and 1 year	(500)	(4,573)	(271)	—	(5,344)
Between 1 and 2 years	(10,096)	(8,932)	(344)	—	(19,372)
Between 2 and 3 years	—	(12,645)	(4)	—	(12,649)
Between 3 and 4 years	(4,298)	(35,889)	—	—	(40,187)
Between 4 and 5 years	—	—	—	—	—
Over 5 years	—	—	—	—	—
	(14,894)	(66,571)	(890)	(70,335)	(152,690)

The contractual undiscounted cash flows in respect of derivative financial instruments are as follows:

	2012		2011	
	Receivables £'000	**Payables £'000**	Receivables £'000	Payables £'000
Due:				
Within 6 months	**—**	**81**	—	108
Between 6 months and 1 year	**—**	**94**	—	114
Between 1 and 2 years	**—**	**212**	—	175
	—	**387**	—	397

The Group has a contractual obligation to pay £81,000 (2011: £108,000) under its interest rate swap arrangement covering the period from 29 June to 28 September 2012.

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 2012 and 30 June 2011 were:

At 30 June 2012	Danish Krone £'000	Euro £'000	US Dollar £'000	Other £'000
Financial assets				
Trade receivables	6,666	9,902	4,019	2,222
Other receivables	147	284	20	73
Cash balances	2,766	4,900	7,372	3,042
Other financial assets	242	49	—	171
	9,821	15,135	11,411	5,508
Financial liabilities				
Bank loans and overdrafts	—	(17,264)	(28,675)	—
Finance leases	—	(248)	—	—
Trade payables	(1,794)	(2,333)	(1,210)	(142)
Other financial liabilities	(3,921)	(1,902)	—	(1,669)
	(5,715)	(21,747)	(29,885)	(1,811)
Net balance sheet exposure	4,106	(6,612)	(18,474)	3,697

At 30 June 2011	Danish Krone £'000	Euro £'000	US Dollar £'000	Other £'000
Financial assets				
Trade receivables	1,877	3,514	4,320	5,858
Other receivables	168	30	—	232
Cash balances	1,675	786	1,163	2,622
Other financial assets	480	103	—	133
	4,200	4,433	5,483	8,845
Financial liabilities				
Bank loans	—	(3,997)	(27,746)	—
Finance leases	—	(406)	—	—
Trade payables	(3,225)	(1,141)	(167)	(284)
Derivatives	(3,286)	(1,479)	—	(1,090)
	(6,511)	(7,023)	(27,913)	(1,374)
Net balance sheet exposure	(2,311)	(2,590)	(22,430)	7,471

Notes to the Consolidated Financial Statements continued

22. Financial Instruments and Related Disclosures continued

Sensitivity Analysis

Interest Rate Risk

A 2.0% increase in interest rates compared to those ruling at 30 June 2012 would reduce Group profit before taxation and equity by £168,000 (2011: £281,000).

Foreign Currency Risk

The Group has significant cash flows and net financial assets and liabilities in Danish Krone, US Dollar and Euro.
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	(4,077)	(5,925)
US Dollar	36	(323)
Euro	210	(1,989)

Hedges

Cash Flow Hedges

The Group has entered into an interest rate swap on the term loan of £55.0 million and the revolving credit facility of £65.0 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 30 September 2013. The amounts recognised in equity are recycled to the income statement to offset gains and losses in the period in which the cash flows occurs.

The amount recognised in equity in the year ended 30 June 2012 was a liability of £286,000 including an income tax credit of £101,000 (2011: £294,000 including an income tax credit of £103,000).

23. Share Capital

	Ordinary shares of 1p each			
	2012		2011	
	£'000	**No.**	£'000	No.
Allotted, called up and fully paid at start of year	**664**	**66,449,659**	661	66,090,075
Rights issue	**201**	**20,040,653**	—	—
New shares issued	**4**	**379,864**	3	359,584
Allotted, called up and fully paid at end of year	**869**	**86,870,176**	664	66,449,659

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 379,864 new ordinary shares of 1p (2011: 359,584 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 £452,782 (2011: £542,000). The holders of ordinary shares are entitled to receive dividends as declared or approved at General Meetings from time to time and are entitled to one vote per share at such meetings of the Company.

The Company issued 20,040,653 shares of 1p each by way of a 3 for 10 Rights Issue at an issue price of 300p per share on 16 May 2012. The rights issue generated net proceeds of £58,835,110 after costs of £1,286,849. The issue price represented a discount of 35.3% to the closing price of 464p per share on 4 April 2012, being the last business day before the announcement of the Rights Issue.

24. 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

Under this plan vesting is dependent firstly on an earnings per share target. No awards will vest unless underlying 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. One hundred per cent 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.

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, five or seven 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. 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

24. Share-based Payments continued

Year ended 30 June 2012

	Exercise Period	Exercise price per share* Pence	At 1 July 2011 Number	Exercised Number	Granted Number	Adjusted for Rights Issue*	Lapsed Number	**At 30 June 2012 Number**
Unapproved Share Option Scheme								
22 April 2002†	2005-2012	140.98	1,500	(1,500)	—	—	—	**—**
11 April 2003†	2006-2013	53.75	2,500	—	—	222	—	**2,722**
19 March 2007†	2010-2017	265.43	17,586	(3,809)	—	1,449	(611)	**14,615**
2 April 2008†	2011-2018	336.15	35,883	(8,585)	—	2,731	(3,000)	**27,029**
10 October 2008†	2011-2018	364.63	33,500	(2,500)	—	2,752	—	**33,752**
30 March 2009†	2012-2019	381.15	54,921	(3,876)	—	4,617	(2,800)	**52,862**
1 March 2010	2013-2020	418.81	52,854	—	—	4,250	(4,790)	**52,314**
28 February 2011	2014-2021	461.97	60,688	—	—	4,904	(5,231)	**60,361**
			259,432	(20,270)	—	20,925	(16,432)	**243,655**
Approved Share Option Scheme								
2 April 2004†	2007-2014	123.53	10,000	—	—	887	—	**10,887**
3 December 2004†	2007-2014	165.32	1,667	(1,667)	—	—	—	**—**
5 April 2005†	2008-2015	185.98	23,000	(2,000)	—	1,862	—	**22,862**
15 March 2006†	2009-2016	231.45	36,000	(10,443)	—	2,392	(4,000)	**23,949**
19 March 2007†	2010-2017	265.43	58,901	(5,156)	—	4,562	(3,389)	**54,918**
2 April 2008†	2011-2018	336.15	53,117	(15,784)	—	3,030	(3,000)	**37,363**
10 October 2008†	2011-2018	364.63	2,500	—	—	222	—	**2,722**
30 March 2009†	2012-2019	381.15	23,079	(5,921)	—	1,496	(6,200)	**12,454**
1 March 2010	2013-2020	418.81	33,146	—	—	2,477	(5,210)	**30,413**
28 February 2011	2014-2021	461.97	23,312	—	—	1,730	(3,769)	**21,273**
			264,722	(40,971)	—	18,658	(25,568)	**216,841**
Long Term Incentive Plan								
19 November 2008	2011-2012	—	327,272	(232,717)	—	—	(94,555)	**—**
24 September 2009	2012-2013	—	277,758	—	—	24,663	—	**302,421**
22 December 2010	2013-2014	—	235,841	—	—	20,939	—	**256,780**
7 September 2011	2014-2015	—	—	—	279,263	24,797	—	**304,060**
			840,871	(232,717)	279,263	70,399	(94,555)	**863,261**
SAYE Option Scheme								
12 October 2006	2009-2013	179.77	27,681	(24,090)	—	318	—	**3,909**
17 October 2007	2010-2014	257.16	69,291	—	—	6,731	—	**76,022**
13 October 2008	2011-2015	315.02	105,141	(61,816)	—	3,563	(4,300)	**42,588**
12 October 2009	2012-2016	304.92	117,426	—	—	9,508	(12,221)	**114,713**
13 December 2010	2013-2017	375.64	105,400	—	—	7,716	(18,096)	**95,020**
17 October 2011	2014-2018	365.54	—	—	97,486	8,127	(5,487)	**100,126**
			424,939	(85,906)	97,486	35,963	(40,104)	**432,378**
Total			1,789,964	(379,864)	376,749	145,945	(176,659)	**1,756,135**
Weighted average exercise price*			175.24p	111.35p	94.59p	—	167.92p	**172.47p**

* 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 2012 are 296,135.

24. Share-based Payments continued

Year ended 30 June 2011

	Exercise Period	Exercise price per share Pence	At 1 July 2010 Number	Exercised Number	Granted Number	Lapsed Number	**At 30 June 2011 Number**
Unapproved Share Option Scheme							
22 April 2002*	2005–2012	153.50	3,500	(2,000)	—	—	**1,500**
11 April 2003*	2006–2013	58.50	2,500	—	—	—	**2,500**
19 March 2007*	2010–2017	289.00	21,135	(3,549)	—	—	**17,586**
2 April 2008*	2011–2018	366.00	45,038	(6,155)	—	(3,000)	**35,883**
10 October 2008	2011–2018	397.00	33,500	—	—	—	**33,500**
30 March 2009	2012–2019	415.00	54,921	—	—	—	**54,921**
1 March 2010	2013–2020	456.00	52,854	—	—	—	**52,854**
28 February 2011	2014–2021	503.00	—	—	60,688	—	**60,688**
			213,448	(11,704)	60,688	(3,000)	**259,432**
Approved Share Option Scheme							
2 April 2004*	2007–2014	134.50	19,000	(9,000)	—	—	**10,000**
3 December 2004*	2007–2014	180.00	16,667	(15,000)	—	—	**1,667**
5 April 2005*	2008–2015	202.50	31,000	(8,000)	—	—	**23,000**
15 March 2006*	2009–2016	252.00	61,000	(25,000)	—	—	**36,000**
19 March 2007*	2010–2017	289.00	105,665	(43,764)	—	(3,000)	**58,901**
2 April 2008*	2011–2018	366.00	67,962	(12,845)	—	(2,000)	**53,117**
10 October 2008	2011–2018	397.00	2,500	—	—	—	**2,500**
30 March 2009	2012–2019	415.00	23,079	—	—	—	**23,079**
1 March 2010	2013–2020	456.00	33,146	—	—	—	**33,146**
28 February 2011	2014–2021	503.00	—	—	23,312	—	**23,312**
			360,019	(113,609)	23,312	(5,000)	**264,722**
Executive Incentive Plan and Long Term Incentive Plan							
29 February 2008	2011–2012	—	152,472	(152,472)	—	—	**—**
19 November 2008	2011–2012	—	327,272	—	—	—	**327,272**
24 September 2009	2012–2013	—	277,758	—	—	—	**277,758**
22 December 2010	2013–2014	—	—	—	235,841	—	**235,841**
			757,502	(152,472)	235,841	—	**840,871**
SAYE Option Scheme							
18 October 2005	2008–2010	204.00	19,410	(18,779)	—	(631)	**—**
12 October 2006	2009–2013	195.74	27,681	—	—	—	**27,681**
17 October 2007	2010–2014	280.00	139,562	(63,020)	—	(7,251)	**69,291**
13 October 2008	2011–2015	343.00	109,435	—	—	(4,294)	**105,141**
12 October 2009	2012–2016	332.00	137,993	—	—	(20,567)	**117,426**
13 December 2010	2013–2017	409.00	—	—	112,743	(7,343)	**105,400**
			434,081	(81,799)	112,743	(40,086)	**424,939**
Total			1,765,050	(359,584)	432,584	(48,086)	**1,789,964**
Weighted average exercise price			183.3p	150.9p	204.3p	336.1p	**190.8p**

* Total share options exercisable at 30 June 2011 are 240,154.

The weighted average exercise price of options eligible to be exercised at 30 June 2012 was 302.5p (2011: 293.2p).

For options exercised during the year, the weighted average market price at the date of exercise was 461p (2011: 503p). The weighted average remaining contractual lives of options outstanding at the consolidated statement of financial position date was four years (2011: four years).

Notes to the Consolidated Financial Statements
continued

24. Share-based Payments continued

Outstanding options on all Long Term Incentive Plan, Approved and Unapproved plans prior to 30 June 2009 were exercisable at 30 June 2012.

No options issued under SAYE plans were exercisable at 30 June 2012.

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	07/09/11	22/12/10
Number of shares awarded	279,263	235,841
Share price at date of grant	455.5p	514.00p
Exercise price	Nil	Nil
Expected life	3 years	3 years
Risk-free rate	0.85%	1.60%
Volatility	38%	39%
Dividend yield	2.66%	2.04%
Fair value per share	276p	322p

Unapproved and Approved Share Option Schemes

Date of grant	28/02/11
Number of shares awarded	84,000
Share price at date of grant	507.5p
Exercise price	503p
Expected life	5 years
Risk-free rate	2.65%
Volatility	36%
Dividend yield	2.07%
Fair value per share	149p

24. Share-based Payments continued

Save As You Earn Option Scheme

Date of grant	17/10/11	13/12/10
Number of shares awarded	97,486	112,743
Share price at date of grant	478p	507p
Exercise price	398p	409p
Expected life		
— three year scheme	3.25 years	3.25 years
— five year scheme	5.25 years	5.25 years
— seven year scheme	7.25 years	7.25 years
Risk-free rate		
— three year scheme	0.98%	1.46%
— five year scheme	1.58%	2.24%
— seven year scheme	2.11%	2.90%
Volatility	34%	36%
Dividend yield	2.53%	2.07%
Fair value per share		
— three year scheme	140p	165p
— five year scheme	147p	181p
— seven year scheme	161p	201p

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 2012 of £73,000 (2011: £229,000), of which £18,000 (2011: £15,000) related to vested options. The total charge to the Income Statement in respect of share-based payments was:

	2012 £'000	2011 £'000
Equity settled share-based transactions	**1,001**	830
Cash settled share-based transactions	**(24)**	118
	977	948

The above charge to the Income Statement is included within administrative expenses.

Notes to the Consolidated Financial Statements
continued

25. Analysis of Net Borrowings

	2012 £'000	2011 £'000
Bank loans	**(118,211)**	(63,746)
Finance leases and hire purchase contracts	**(941)**	(841)
Cash and cash equivalents	**32,435**	30,496
Net borrowings	**(86,717)**	(34,091)

26. 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	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000
Within one year	**1,301**	1,219	**2,279**	1,278	**3,580**	2,497
Between one and five years	**3,300**	4,062	**2,414**	1,234	**5,714**	5,296
In five years or more	**2,927**	3,472	**—**	—	**2,927**	3,472
	7,528	8,753	**4,693**	2,512	**12,221**	11,265

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 5 years.

27. Foreign Exchange Rates

The following exchange rates have been used in the translation of the results of foreign operations.

	Closing rate at 30 June 2011	Average rate	Closing rate at 30 June 2012
Danish Krone	8.256	8.7165	9.21
Euro	1.1070	1.1716	1.2389
US Dollar	1.6073	1.5686	1.5681

28. Acquisitions

Acquisition of Eurovet Animal Health B.V.

On 23 May 2012, the Group acquired 100% of the share capital of Eurovet Animal Health B.V. obtaining control of *Eurovet*. *Eurovet* is a veterinary pharmaceuticals business based in mainland Europe with its head office, manufacturing facility, research and development team and central sales and marketing office located in the Netherlands. Additionally, it has operations in Germany, Belgium, Denmark and the United Kingdom.

It has highly complementary products, geographies, manufacturing competencies and is similar in structure to Dechra Veterinary Products.

	Book value £'000	Provisional fair value £'000
Recognised amounts of identifiable assets acquired and liabilities assumed		
Identifiable assets		
Property, plant and equipment	9,454	9,454
Trade and other receivables	6,600	6,596
Inventory	12,795	12,507
Cash and cash equivalents	3,989	3,989
Indentifiable intangible assets	14,620	78,703
Identifiable liabilities		
Trade and other payables	(8,354)	(8,825)
Employee benefit obligations	(341)	(341)
Current tax	(1,041)	(1,690)
Deferred tax	(858)	(20,531)
Net identifiable assets	**36,864**	**79,862**
Goodwill		**36,348**
Total consideration		**116,210**
Satisfied by:		
Cash		116,210
Total consideration transferred		**116,210**
Net cash outflow arising on acquisition		
Cash consideration		116,210
Less: cash and cash equivalent balances acquired		(3,989)
		112,221

The fair values shown above are provisional and may be amended if information not currently available comes to light. The fair value of the financial assets includes trade receivables with a fair value of £5,669,000.

The provisional fair value adjustments principally relate to harmonisation with Group IFRS accounting policies, including the application of fair values on acquisition, principally the recognition of product rights in accordance with IFRS 3.

The goodwill of £36,348,000 arising from the acquisition consists of the synergies, assembled workforce, technical expertise and the increased geographical presence in Germany and the Netherlands. None of the goodwill is expected to be deductible for income tax purposes.

Acquisition related costs (included in operating expenses) amounted to £2,315,000. *Eurovet's* results are reported within the European Pharmaceuticals segment.

Eurovet contributed £7,127,000 revenue and £852,000 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 *Eurovet* had been completed on the first day of the financial year, Group revenues for the period would have been £500,775,000 and the Group underlying pre-tax profit would have been £40,898,000.

Notes to the Consolidated Financial Statements continued

28. Acquisitions continued

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.

	Book value £'000	Fair value £'000
Recognised amounts of identifiable assets acquired and liabilities assumed		
Identifiable assets		
Intangible assets	184	184
Property, plant and equipment	27	23
Trade and other receivables	326	326
Inventory	217	217
Cash and cash equivalents	59	59
Identifiable intangible assets	—	5,596
Identifiable liabilities		
Trade and other payables	(318)	(318)
Deferred tax liabilities	(36)	(1,546)
Net identifiable assets	**459**	**4,541**
Goodwill		**1,845**
Total consideration		**6,386**
Satisfied by:		
Cash		5,586
Contingent consideration arrangement		800
Total consideration transferred		**6,386**
Net cash outflow arising on acquisition		
Cash consideration		5,586
Less: cash and cash equivalent balances acquired		(59)
		5,527

The fair value of the financial assets includes trade receivables with a fair value of £290,000. The fair value adjustment in relation to intangible assets recognises product rights in accordance with IFRS 3.

The goodwill of £1,845,000 arising from the acquisition consists of the assembled workforce and associated technical expertise. None of the goodwill is expected to be deductible for income tax purposes.

The contingent consideration arrangement, which has been reassessed between the date of acquisition and the year end and remains unadjusted, requires payment of £800,000 to be paid on the achievement of specific milestones. An amount of £500,000 was paid during the year ended 30 June 2012 leaving a remaining potential payment of £300,000.

Acquisition related costs (included in non-underlying operating expenses) amounted to £108,000.

28. 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.

The acquisition of *DermaPet* Inc. increases Dechra's US presence and complements its EU range in this key strategic therapeutic category.

	Book value £'000	Fair value £'000
Recognised amounts of identifiable assets acquired and liabilities assumed		
Identifiable assets		
Identifiable assets		
Trade and other receivables	1,084	1,084
Inventory	384	384
Identifiable intangible assets	—	38,909
Identifiable liabilities		
Overdraft	(1)	(1)
Trade and other payables	(216)	(216)
Net identifiable assets	**1,251**	**40,160**
Goodwill		**326**
Total consideration		**40,486**
Satisfied by:		
Cash		27,519
Deferred consideration		1,163
Contingent consideration arrangement		11,804
Total consideration transferred		**40,486**
Net cash outflow arising on acquisition		
Cash consideration		27,519
Add: bank overdraft		1
		27,520

The fair value of the financial assets includes trade receivables with a fair value of £1,076,000. The fair value adjustment in relation to intangible assets recognises product rights in accordance with IFRS 3.

The goodwill of £326,000 arising from the acquisition consists of the assembled workforce and increased geographical presence in the US. The goodwill and identified intangibles are expected to be deductible for income tax purposes.

The deferred consideration arrangement requires payments of US$1,000,000 to be paid on the second and fourth anniversaries of the completion date. The contingent consideration arrangement requires that if *DermaPet* Inc. achieves revenue in excess of US$15,000,000 in any rolling 12 month period commencing on the first anniversary of completion and ending on the sixth anniversary of completion, contingent consideration of US$15,000,000, which has been reassessed between the date of acquisition and the year end and remains unadjusted, will become payable. If revenue on the same criteria exceeds US$20,000,000, a further US$5,000,000 will become due.

Acquisition related costs (included in non-underlying operating expenses) amounted to £585,000.

Notes to the Consolidated Financial Statements
continued

29. 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 141.

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 59 to 70. The remuneration of key management is disclosed in note 7.

30. Off Balance Sheet Arrangements

The Group has no off balance sheet arrangements to disclose as required by S410A of the Companies Act 2006.

Company Balance Sheet

At 30 June 2012

	Note	2012 £'000	2011 £'000
Fixed assets			
Investments	iii	**251,104**	132,119
Intangible assets	iv	**4,901**	—
		256,005	132,119
Current assets			
Debtors (includes amounts falling due after more than one year of £571,000 (2011: £2,417,000))	v	**21,306**	39,873
Cash at bank and in hand		**1,052**	2
		22,358	39,875
Creditors: amounts falling due within one year	vi	**(35,916)**	(43,866)
Net current liabilities		**(13,558)**	(3,991)
Total assets less current liabilities		**242,447**	128,128
Creditors: amounts falling due after more than one year	vi	**(113,800)**	(55,746)
Net assets		**128,647**	72,382
Capital and reserves			
Called up share capital	ix	**869**	664
Share premium account	x	**122,642**	63,559
Hedging reserve	x	**(286)**	(294)
Profit and loss account	x	**5,422**	8,453
Total equity Shareholders' funds		**128,647**	72,382

The financial statements were approved by the Board of Directors on 4 September 2012 and are signed on its behalf by:

Ian Page
Chief Executive
4 September 2012

Simon Evans
Group Finance Director
4 September 2012

Company number: 3369634

Reconciliation of Movements in Shareholders' Funds

For the year ended 30 June 2012

	2012 £'000	2011 £'000
At start of year	72,382	73,045
Profit for the financial year	4,293	5,132
Effective portion of changes in fair value of cash flow hedges	(335)	(506)
Cash flow hedges recycled to profit and loss account	343	488
Share-based payments charge	1,001	903
Dividends paid	(8,325)	(7,221)
New shares issued	59,288	541
At end of year	128,647	72,382

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 £4,293,000 (2011: £5,132,000). Fees paid to KPMG Audit Plc 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 FRS 1 (Revised) not to present a cash flow statement as part of its financial statements.

Notes to the Company Financial Statements continued

(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 29 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.

(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 £1,727,000 (2011: £1,696,000). Information relating to Directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 59 to 70.

(iii) Fixed Asset Investments

	Shares in Subsidiary Undertakings £'000
Cost	
At 1 July 2011	**132,119**
Additions	**118,985**
At 30 June 2012	**251,104**
Net book value	
At 30 June 2012	**251,104**
At 30 June 2011	**132,119**

A list of principal subsidiary undertakings is given in note (xi).

Additions represent the acquisition of *Eurovet* Animal Health B.V. and a further investment in Dechra Investments Limited (a subsidiary company).

Where subsidiaries are acquired for shares, or a combination of shares and cash, statutory merger relief has been applied and accordingly cost includes the nominal value of shares issued.

Notes to the Company Financial Statements
continued

(iv) Intangible Assets

	Acquired Intangibles £'000
Cost	
At 1 July 2011	–
Additions	**5,114**
At 30 June 2012	**5,114**
Amortisation	
At 1 July 2011	–
Charge for the year	**213**
At 30 June 2012	**213**
Net book value	
At 30 June 2012	**4,901**
At 30 June 2011	–

On 31 January 2012 the Company acquired the worldwide rights (excluding Canada) to *HY-50*, an equine lameness product. The total consideration was 8.0 million Canadian Dollars (£5.1 million) which was paid in cash on completion.

(v) Debtors

	2012 £'000	2011 £'000
Amounts owed by subsidiary undertakings	**18,735**	36,836
Group relief receivable	**1,699**	2,248
Deferred taxation (see note (viii))	**571**	639
Other debtors	**301**	98
Prepayments and accrued income	–	52
	21,306	39,873

Included in debtors are amounts of £571,000 (2011: £639,000) 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 (2011: £1,778,000).

(vi) Creditors

	Falling due within one year 2012 £'000	2011 £'000
Bank loans and overdrafts (see note (vii))	**4,411**	31,564
Amounts due to subsidiary undertakings	**28,557**	9,930
Other creditors	**18**	868
Derivative financial instruments	**387**	397
Other taxation and social security	**—**	79
Accruals and deferred income	**2,543**	1,028
	35,916	43,866

In accordance with FRS 21 'Events after the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2012 of 8.50p per share (2011: 7.72p per share restated to take into account the bonus element of the Rights Issue) has not been accrued for in these financial statements. It will be shown in the financial statements for the year ending 30 June 2013. The total cost of the proposed final dividend is £7,384,000 (2011: £5,582,000).

	Falling due after more than one year 2012 £'000	2011 £'000
Bank loans (see note(vii))	**113,800**	55,746
	113,800	55,746

(vii) Borrowings

	2012 £'000	2011 £'000
Borrowings due within one year		
Bank overdraft	**—**	23,564
Bank loan	**5,000**	8,000
Arrangement fees netted off	**(589)**	—
	4,411	31,564
Borrowings due after more than one year		
Aggregate bank loan instalments repayable:		
between one and two years	**10,000**	8,000
between two and five years	**105,757**	47,746
after five years	**—**	—
	115,757	55,746
Arrangement fees netted off	**(1,957)**	—
	113,800	55,746
Total borrowings	**118,211**	87,310

The bank loans, 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 2012.

The Company guarantees certain borrowings of other Group companies, which at 30 June 2012 amounted to £923,000 (2011: £773,000).

Notes to the Company Financial Statements
continued

(viii) Deferred Tax

	£'000
At 1 July 2011	639
Transfer to profit and loss	(68)
At 30 June 2012 (included in debtors)	571

The amounts provided for deferred taxation at 24% (2011: 26%) are as follows:

	2012 £'000	2011 £'000
Short term timing differences	**571**	639

(ix) Called up Share Capital

Issued share capital	Ordinary Shares of 1p each £'000	No.
Allotted, called up and fully paid at 1 July 2011	664	66,449,659
Rights issue	201	20,040,653
New shares issued	4	379,864
Allotted, called up and fully paid at 30 June 2012	**869**	**86,870,176**

Details of new ordinary shares issued following the Rights Issue, exercise of options under the Long Term Incentive Plan and the Approved, Unapproved and SAYE share option schemes are shown in note 23 to the consolidated financial statements.

Share Options

Details of outstanding share options over ordinary shares of 1p at 30 June 2012 under the various Group share option schemes are shown in note 24 to the Consolidated Financial Statements.

(x) Reserves

	Share premium account £'000	Hedging reserve £'000	Profit and loss account £'000
At 1 July 2011	63,559	(294)	8,453
New shares issued	59,083	—	—
Profit for the financial year	—	—	4,293
Effective portion of changes in fair value of cash flow hedges	—	(335)	—
Cash flow hedges recycled to profit and loss account	—	343	—
Dividend (see note 9 to the consolidated financial statements)	—	—	(8,325)
Share-based payments charge	—	—	1,001
At 30 June 2012	**122,642**	**(286)**	**5,422**

(xi) 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 products and distributor of veterinary products and equipment
Dechra LimitedΩ	England & Wales	Developer, regulatory, manufacturer and marketer of veterinary products; wholesaler; provider of veterinary laboratory services
Dechra Development LLC**	USA	Regulatory and product development
Dechra Veterinary Products A/S	Denmark	Manufacturer of veterinary products and marketer of veterinary products 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 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 products and marketer of veterinary products and pet diets
Eurovet Animal Health Limited∞	England & Wales	Marketer of veterinary pharmaceuticals and pet diets
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
Cambridge Specialist Laboratory Services Limited§	England & Wales	Non-trading
Dales Pharmaceuticals Limited*	England & Wales	Non-trading
Dechra Investments Limited	England & Wales	Holding Company
Farvet Laboratories BV∞	The Netherlands	Non-trading
Genitrix Limited	England & Wales	In-liquidation
Leeds Veterinary Laboratories Limited	England & Wales	Non-trading
National Veterinary Services 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. Voting preference shares held by Dechra Pharmaceuticals PLC Employee Benefit Trust.
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.

Financial History

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Consolidated income statement					
Revenue	**426,041**	389,237	369,369	349,964	304,371
Underlying operating profit	**36,601**	31,823	28,190	24,971	19,142
Underlying profit before taxation	**32,966**	30,069	26,056	23,406	16,853
Underlying profit after taxation	**24,302**	22,748	19,437	16,759	12,185
Underlying earnings per share — basic (pence)	**32.37***	31.53*	27.09*	23.52*	19.11*
— diluted (pence)	**32.27***	31.43*	26.99*	23.33*	18.96*
Dividend per share (pence)	**12.27***	11.12*	9.64*	8.36*	7.58*
Average number of employees	**1,042**	1,005	1,021	1,012	889
Consolidated statement of financial position					
Non-current assets	**242,592**	132,819	88,044	97,605	99,652
Working capital	**49,531**	32,494	21,486	17,548	17,284
Deferred and contingent consideration	**(13,863)**	(14,055)	—	—	—
Current tax liabilities	**(8,155)**	(5,391)	(4,105)	(4,756)	(2,824)
Deferred tax liabilities	**(29,343)**	(13,443)	(12,496)	(14,184)	(15,316)
Employee benefit obligations	**(363)**	—	—	—	—
Net borrowings	**(86,717)**	(34,091)	(6,701)	(15,527)	(26,997)
Shareholders' funds	**153,682**	98,333	86,228	80,686	71,799
Consolidated cash flow					
Cash flow from operating activities	**29,128**	25,374	26,662	27,557	16,053
Net interest paid	**(2,426)**	(2,629)	(2,208)	(1,851)	(2,802)
Tax paid	**(7,241)**	(5,034)	(6,124)	(3,227)	(3,041)
Net capital expenditure	**(3,228)**	(4,090)	(2,721)	(3,634)	(2,112)
Acquisitions	**(117,335)**	(33,047)	—	—	(65,151)
Equity dividends paid	**(8,325)**	(7,221)	(6,195)	(5,565)	(4,420)
Financing	**112,033**	26,090	(4,626)	(8,843)	66,500
Changes in cash in period	**2,606**	(557)	4,788	4,437	5,027

* Restated to reflect the impact of the bonus element of the Rights Issue.

Glossary

The following is a glossary of a number of the terms and acronyms which can be found within this document.

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.

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.

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.

EBITDA

Earnings before interest, tax, depreciation and amortisation.

Euthyroid

Euthyroid is the state of having normal thyroid gland function.

FDA

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

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 burnt up).

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.

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.

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.

Otitis Externa

A condition which causes inflammation of the external ear canal (the tube between the outer ear and the ear drum).

Product Pipeline

This involves four stages which are as follows:

- Manufacturing — the part of the dossier which documents the quality, purity and physical characteristics of both the active ingredient and the final formulation (e.g. tablets, capsules, liquid).
- Safety — the part of the dossier which documents the effects of the final formulation at above normal dosage levels in the intended species.
- Efficacy — the part of the dossier which documents the effectiveness of the final formulation in the intended species. The studies may be controlled model studies or studies in animals with the naturally occurring disease.
- Regulatory — the period of time that regulatory agencies take to review the various sections of the dossier.

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.

Shareholder Information

Financial Calendar

Interim Management Statement	19 October 2012
2012 Annual General Meeting	19 October 2012
Final Dividend Ex Div Date	7 November 2012
Final Dividend Record Date	9 November 2012
Dividend Payment Date	23 November 2012

Annual General Meeting

The 2012 Annual General Meeting of the Company will be held at 10.00 am on 19 October 2012 at Investec Bank plc, 2 Gresham Street, London EC2V 7QP. The notice of meeting, which includes special business to be transacted at the Annual General Meeting, is included within the Circular accompanying this Annual Report, together with an explanation of the resolutions to be considered at the meeting.

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

Registrar

Dechra's Registrar is Computershare Investor Services PLC.

Computershare 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.

Computershare offers a facility whereby Shareholders are able to access their shareholdings in Dechra (and other companies for which Computershare acts as registrar) via their website (www-uk.computershare.com/Investor/default.asp).

Alternatively Computershare can be contacted at:

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ

Registrar Shareholder Helpline for Dechra: 0870 889 4030

Please have your Shareholder Reference Number to hand whenever you contact the Registrar; this can be found on your share certificate.

Share Dealing Service

Computershare offer a Share Dealing service, to buy or sell shares. Further information can be obtained from www-uk.computershare.com/sharedealingcentre or by telephoning 0870 703 0084.

	Telephone Share Dealing	Internet Share Dealing
Fee (on value of transaction)	1%	0.5%
Minimum Charge	£25.00	£15.00
Stamp Duty Charge (Purchases only)	0.5%	0.5%

Computershare Investor Services PLC and its agents are authorised and regulated by the Financial Services Authority.

Please note that the price of shares can go down as well as up, and you are not guaranteed to get back the amount you originally invested. If you are in any doubt you should contact an independent financial adviser.

Warning to Shareholders

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. During the year 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 are boiler room scams.

These types of calls are typically from overseas based 'brokers' who target UK shareholders. These operations are commonly known 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. The Financial Services Authority ("FSA") has found

Shareholder Information continued

most share fraud victims are experienced investors who lose an average of £20,000, with around £20 million lost in the UK each year.

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:

- Get the name of the person and organisation contacting you;
- Check the FSA Register at www.fsa.gov.uk/fsaregister/ to ensure they are authorised;
- Use the details on the FSA Register to contact the firm;
- Call the FSA Consumer Helpline on 0845 606 1234 if there are no contact details on the Register or you are told they are out of date;
- Search the FSA list of unauthorised firms and individuals to avoid doing business with them; 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 FSA using the share fraud reporting form at www.fsa.gov.uk/scams, where you can find out about the latest investment scams. You can also call the Consumer Helpline on 0845 606 1234.

If you have already paid money to share fraudsters 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 above);
- 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;
- if you decide to sell or buy shares use only brokers registered in the UK or your own country.

Advisers

Auditor

KPMG Audit Plc
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

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS13 8AE

Financial PR

TooleyStreet Communications
Regency Court
68 Caroline Street
Birmingham
B3 1UG

Principal Bankers

Lloyds TSB 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

Trademarks

Trademarks appear throughout this document in italics. Dechra and the Dechra “D” logo are registered trademarks of Dechra Pharmaceuticals PLC. The *Malaseb* trademark is used under licence from Dermacare-Vet Pty. Ltd.

www.dechra.com

Dechra
Pharmaceuticals PLC

Dechra House
Jamage Industrial Estate
Talke Pits, Stoke-on-Trent
Staffordshire, ST7 1XW
England

T: +44 (0) 1782 771100
F: +44 (0) 1782 773366
E: corporate.enquiries@dechra.com

Registered in England No. 3369634