



# An International Veterinary Pharmaceutical Business

**Annual Report and Accounts**  
for the year ended 30 June 2011

## Our Business

Dechra is an international pharmaceutical business focused on the veterinary market with its key area of specialisation being the development and marketing of companion animal products

### Our Strategy

- To sustain growth and innovate in our Services business; and
- To continue to develop a high growth, cash generative, specialist veterinary products business

For more information on our Strategy go to page 8 

#### Key Performance Indicators:

The Group utilises KPIs to assess its development and progress against its strategy

The KPIs can be found on pages 30 to 31

#### Risks:

The Group faces risks and uncertainties relating to the achievement of its strategy and objectives

A table setting out the main potential risk areas and the controls in place can be found on pages 36 to 37

## Our Values

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

**Enjoyment:** We will endeavour to create an environment where our people want to come to work and feel part of Dechra

**Courage:** We want a business where we dare to challenge each other, creating better cross-organisational solutions

**Honesty:** We will act with integrity and fairness and treat everyone with respect

**Relationships:** We see our customers and suppliers as business partners and thereby work together to ensure common success

**Ambition:** We shall deliver solid results through our energetic and resilient approach

For more information on our Values go to page 29 

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 by this very nature involve a degree of uncertainty. Therefore, nothing in this publication should be construed as a profit forecast by the Company.

## Our Business Group at a Glance

### Product Development

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

### European Pharmaceuticals

- **Dechra Veterinary Products EU ("DVP EU")**  
Sales and marketing of Dechra's branded veterinary products and specialist pet foods to the veterinary profession in Europe
- **Dales® Pharmaceuticals ("Dales")**  
Licensed manufacturer of veterinary and human pharmaceuticals for DVP EU and third party customers

#### European Pharmaceuticals Revenue

**£89.3 million** up **5.5%** (2010: £84.6 million)

### US Pharmaceuticals

- **Dechra Veterinary Products US ("DVP US")**  
Sales and marketing of Dechra's branded endocrine, ophthalmic, dermatological and equine products into North America

#### US Pharmaceuticals Revenue

**£16.1 million** up **51.5%** (2010: £10.6 million)

### Services

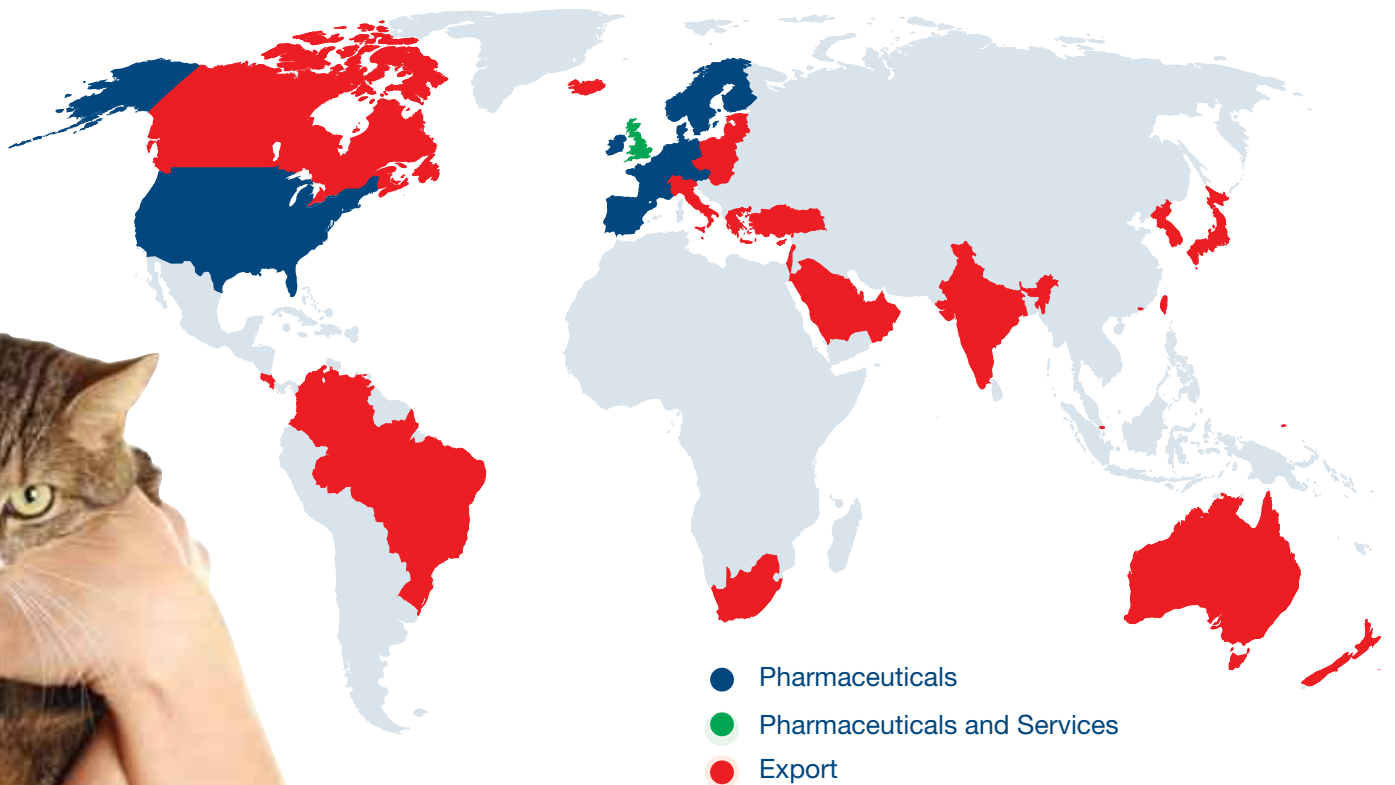
- **National Veterinary Services ("NVS®")**  
UK market leader in the supply of pharmaceuticals, instruments, consumables, pet products and added value services to the veterinary profession
- **NationWide Laboratories ("NWL")**  
Multi-disciplined independent commercial veterinary laboratory
- **Cambridge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

#### Services Revenue

**£296.3 million** up **3.7%** (2010: £285.7 million)



## Where we Operate



## 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

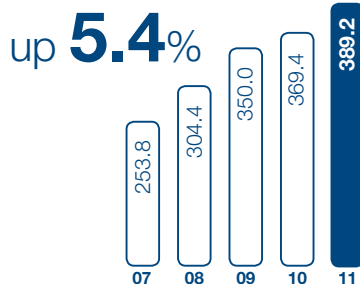
## Our Key Achievements

- Fifth successive year of double digit underlying earnings per share growth
- Strong growth from branded veterinary products
- Investment in product pipeline increased
- High cash inflow in second half
- Two earnings enhancing acquisitions completed and integrated
- Strong balance sheet with net borrowings 0.98 times underlying EBITDA

## Highlights

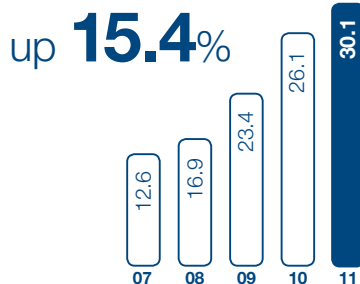
### Revenue

£ million



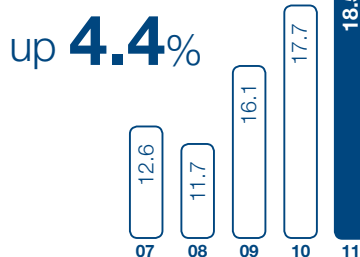
### Underlying Profit Before Taxation\*

£ million



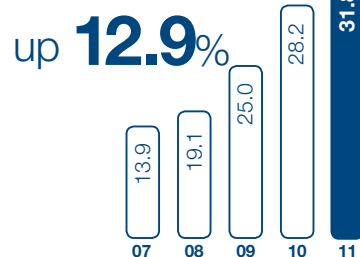
### Profit Before Taxation

£ million



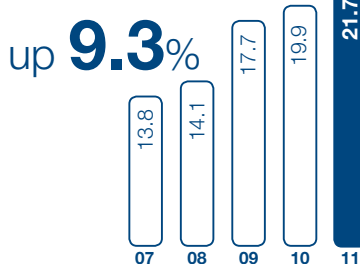
### Underlying Operating Profit\*

£ million



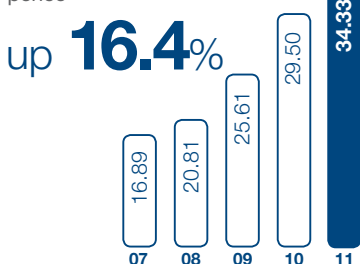
### Operating Profit

£ million



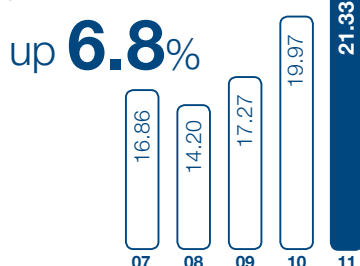
### Underlying Earnings per Share\*

pence



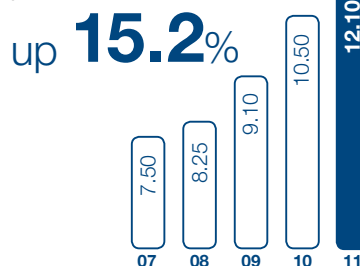
### Earnings per Share

pence



### Dividend per Share

pence



\* 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 the unwinding of discounts on deferred and contingent consideration (see notes 4 and 5).

## Our Business

- 01 Highlights
- 02 Our Business Model

## Directors' Report: Our Performance

- 04 Chairman's Statement
- 08 Chief Executive's Review
- 12 Key Products and Specialisations
- 14 Product Development
- 16 Product Pipeline
- 18 Introducing the DVP Country Managers
- 20 European Pharmaceuticals
- 23 US Pharmaceuticals
- 24 Services
- 28 Information Technology and HR
- 30 Key Performance Indicators
- 32 Financial Review
- 35 Risks and Uncertainties

## Directors' Report: Our Governance

- 38 Board of Directors
- 40 Senior Management
- 42 Corporate Governance
- 50 Audit Committee Report
- 53 Directors' Remuneration Report
- 63 Social, Ethical and Environmental Responsibilities
- 69 Other Disclosures
- 73 Statement of Directors' Responsibilities

## Our Accounts

- 74 Independent Auditor's Report
- 76 Consolidated Income Statement
- 77 Consolidated Statement of Comprehensive Income
- 78 Consolidated Statement of Financial Position
- 79 Consolidated Statement of Changes in Shareholders' Equity
- 80 Consolidated Statement of Cash Flows
- 81 Notes to the Consolidated Financial Statements
- 124 Company Balance Sheet
- 125 Reconciliation of Movements in Shareholders' Funds
- 126 Notes to the Company Financial Statements
- 133 Financial History

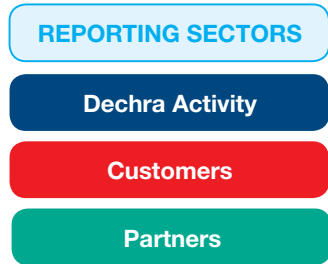
## Shareholder Information

- 134 Shareholder Information
- 136 Glossary

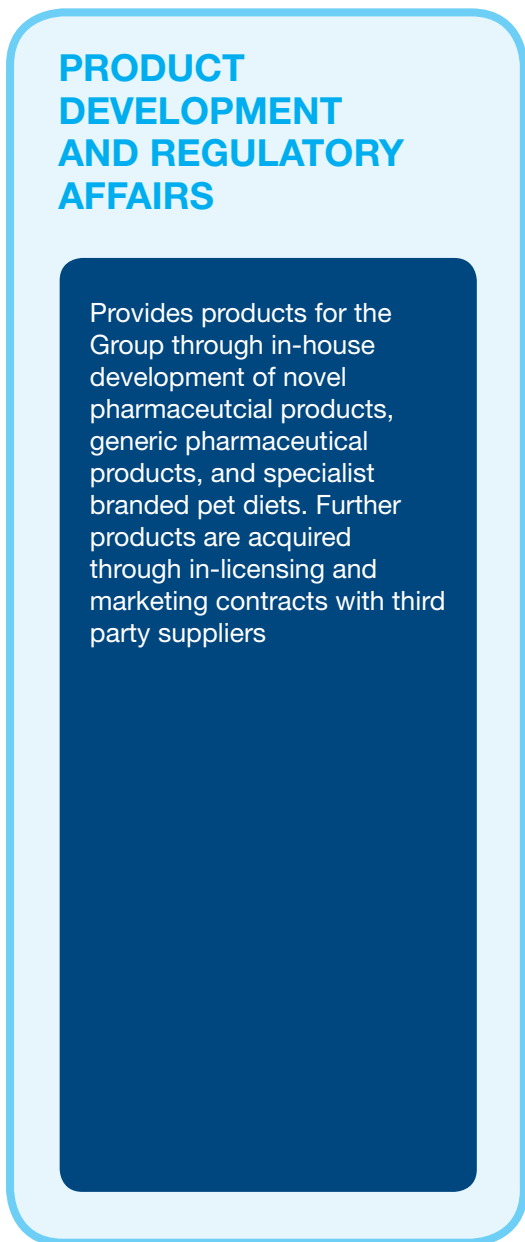
**Our Business**

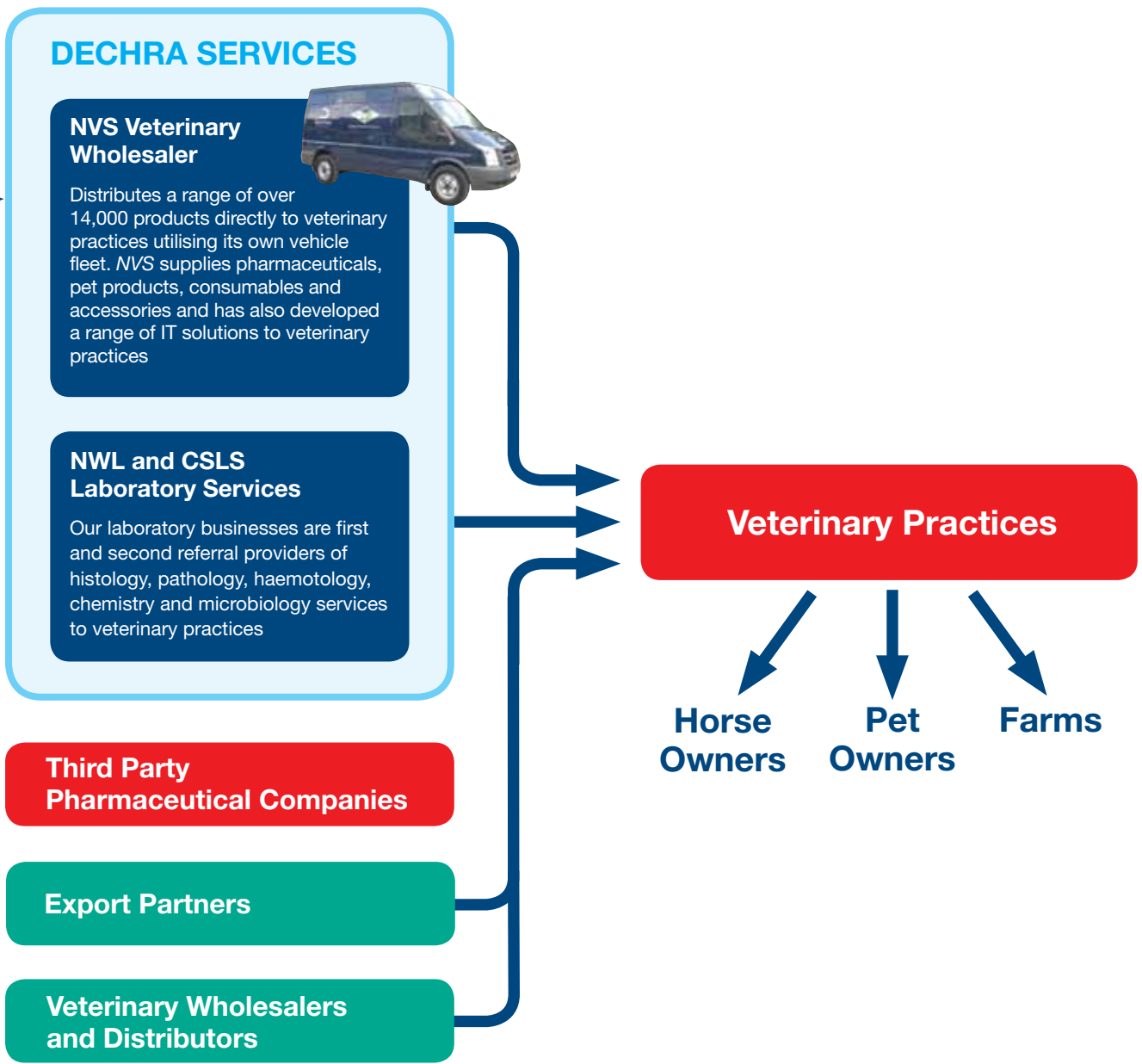
**Our Business Model**

**Key to our Business Model**



**Dechra in Numbers**





## Directors' Report: Our Performance

### Chairman's Statement

*"We believe that we are well positioned to ensure future solid growth is maintained and Shareholder value enhanced"*

Michael Redmond, Chairman



#### Consistent Double Digit Earnings Growth

The Group has achieved its fifth successive year of double digit underlying earnings growth and made significant strategic progress during the year. Two acquisitions, which will be earnings enhancing in the first full year of ownership, have been completed and integrated into the business, our branded products have continued to outperform the market, several new products have been launched and our international scope has increased. Furthermore, we have continued to make advancements with our product development pipeline and have increased investment in people and infrastructure to ensure growth is sustained in the future.

#### Financial Highlights

Revenue increased by 5.4% from £369.4 million to £389.2 million; underlying operating profit increased by 12.9% from £28.2 million to £31.8 million. The increase in underlying operating margin from 7.6% to 8.2% is a reflection of the growth of our high margin pharmaceutical business, particularly in the USA.

The underlying net finance expense was £1.8 million compared to £2.1 million in 2010. Additional net foreign exchange gains of £0.8 million were partially offset by interest on additional bank borrowings to finance the *DermaPet*<sup>®</sup> and *Genitrix*<sup>®</sup> acquisitions.

Underlying profit before taxation increased by 15.4% from £26.1 million to £30.1 million whilst underlying earnings per share rose by 16.4% from 29.50 pence to 34.33 pence.

Reported operating profit was £21.7 million (2010: £19.9 million) whilst profit before taxation was £18.5 million (2010: £17.7 million). Reported earnings per share was 21.33 pence (2010: 19.97 pence).

After a cash outflow in the first half of the financial year, there was a strong cash inflow in the second half with net borrowings reducing from £49.6 million at 31 December 2010 to £34.1 million at 30 June 2011. The increase from £6.7 million at 30 June 2010 is due to the acquisitions made during the year.

#### Dividend

In line with our progressive dividend policy and our confidence in the business, the Directors are recommending an increase in the final dividend to 8.40 pence per share (2010: 7.20 pence per share). This, together with the interim dividend of 3.70 pence per share (2010: 3.30 pence per share), makes a total dividend for the year of 12.10 pence per share (2010: 10.50 pence per share), a 15.2% increase.

The total dividend is covered 2.6 times by profit after taxation after adding back amortisation of acquired intangibles (2010: 2.6 times).

The final dividend, which is subject to Shareholder approval at the Annual General Meeting to be held on Friday 4 November 2011, will be paid on 25 November 2011 to Shareholders on the Register at 11 November 2011. The date shares become ex-dividend is 9 November 2011.

#### People

There have been no senior management changes during the year; however, there have been a number of changes in respect of our Non-Executive Board members. Following ten years of service, Malcolm Diamond MBE retired as Senior Independent Non-Executive Director and Chairman of the Remuneration Committee in November 2010. We would like to thank Malcolm for his valued support and contribution to the business over this period. Dr Chris Richards was appointed as an Independent Non-Executive Director from 1 December 2010. Chris is currently Chairman of Arysta LifeScience Corporation, the world's largest privately owned crop protection company. He brings with him over 20 years of international management experience. Neil Warner has undertaken the role of Senior Independent Non-Executive Director and Bryan Morton has assumed the role of Chairman of the Remuneration Committee.



On behalf of the Board and our Shareholders I would like to thank all our employees for their hard work and dedication throughout the year.

### Corporate Governance

During the year the Board has focused on consolidating the medium to long term strategy of the business to ensure that the Group continues to deliver and maintain value for our stakeholders (detail in respect of this is covered on page 8 of the Chief Executive's Review). As Chairman, one of my prime roles is to ensure that the Board has the right mix of skills and experience to assist the Executive Directors in the progression and implementation of this Group strategy.

During the year a detailed internal board evaluation programme was undertaken. The process was well received by the Directors and a number of constructive suggestions were highlighted which should assist in strengthening the Board over the coming year. The evaluation highlighted the enthusiasm and ambition of the Board to continue to grow the business. Further detail in relation to how the evaluation was carried out can be found in the Corporate Governance Report on page 46.

### Prospects

Although footfall through veterinary practices has declined and the general economic climate remains uncertain we are continuing to demonstrate solid growth in markets in which we trade. Our branded product range, the focus of our key strategic objective, continues to grow strongly.

To sustain this growth we have increased investment in product development, extended the geographies in which we operate, acquired complementary businesses and increased the number of people within sales and marketing. We believe, therefore, that we are well positioned to ensure future solid growth is maintained and Shareholder value enhanced.



### Michael Redmond

Chairman  
6 September 2011



## Directors' Report: Our Performance Case Study

### Dermatology

**It is estimated that around 20% of all small animal veterinary consultations relate to dermatological problems, i.e. skin diseases, allergies, otitis externa, seborrhoeic dermatitis and surface pyoderma are amongst the most commonly diagnosed dermatological conditions.**

#### What is Otitis Externa?

It is inflammation of the skin of the external ear canal. Many factors can contribute to this disease including irritation caused by allergic skin disease, ear mites, foreign bodies, and secondary infection with bacteria or yeasts. As so many factors are involved, this disease can be challenging to manage; some cases require repeat treatment and/or a long term management plan. Ear cleaning can form a vital part of the management of this disease.

Dogs and cats with otitis externa usually show signs of obvious pain or discomfort. They scratch and shake their heads and there is also often a smelly discharge from their ears. The disease is easily diagnosed by examining the animal and inspecting the ear canal. Vets will also often examine a swab taken from the ear (under a microscope), before selecting the appropriate therapy.

*Canaura*<sup>®</sup>, Dechra's branded prescription pharmaceutical, is licensed for the treatment of otitis externa in both dogs and cats. It is effective against microbes most commonly associated with otitis externa and ear mites.

#### What is Seborrhoeic Dermatitis?

This is a condition where an overgrowth of the normally present yeasts and bacteria occurs resulting in dandruff like flaking. It is usually caused by an underlying primary problem such as an allergy, endocrine disease or parasites. This is a very itchy disorder with red inflamed scaly skin; affected animals can also have a strong unpleasant odour.

Diagnosis of the disease is generally easy, based on an examination of a skin sample under a microscope. Diagnosis of the underlying disorder can be more difficult, sometimes impossible. Treatment therefore may need to be long term to prevent recurrence. *Malaseb*<sup>®</sup> shampoo is licensed for the treatment of dogs with seborrhoeic dermatitis.

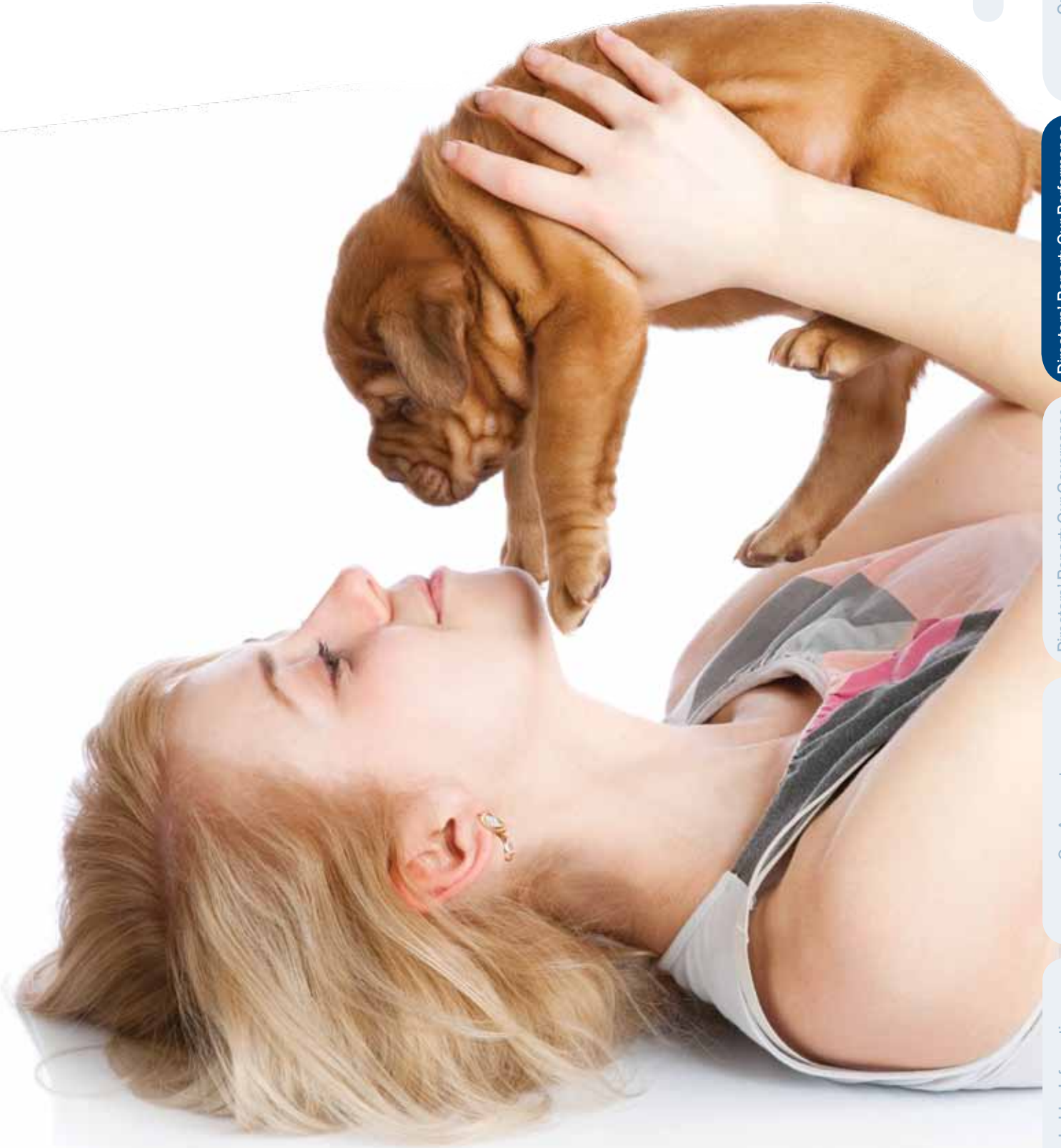
#### What is Surface Pyoderma?

It is a bacterial infection on the surface of the skin, most commonly seen in dogs. There are two distinct types:

- **Acute moist dermatitis:** the root cause is unclear, but is often a trauma, such as a flea bite, that causes the dog to lick, scratch or chew its skin, resulting in an intensely itchy, red inflamed area with a sticky discharge matting the fur.
- **Skin fold dermatitis:** common in obese dogs and breeds with prominent skin folds. Lesions develop in the fold as a result of friction between the skin surfaces often causing the skin inside the fold to be itchy, red and malodorous.

Diagnosis is normally based on the clinical signs identified. Clipping the hair and washing the affected areas are important to increase skin ventilation and remove any debris. However, appropriate antibiotic therapy, such as Dechra's unique pharmaceutical *Fuciderm*<sup>®</sup> Gel, will target the bacterial infection.





## Directors' Report: Our Performance

### Chief Executive's Review

*“Dechra has performed strongly, and for the fifth consecutive year, produced double digit earnings per share growth. This success is a reflection of the strength of the Group and the ongoing delivery of the underlying strategy”*

Ian Page, Chief Executive



#### Introduction

The Group has continued to make good financial and strategic progress during the year. The markets in most of the countries in which we trade have demonstrated growth, although there has been a decline in footfall through veterinary practices, especially in the companion animal sector. This decline has been offset in the UK by reasonably strong growth in the livestock sector and by a significant increase in veterinary products being purchased online as price conscious consumers look to reduce the costs of animal welfare; Dechra, in our UK distribution business, is currently underweight in both these low margin sectors. Within these market dynamics and against the background of continued global economic uncertainty, Dechra has performed strongly and, for the fifth consecutive year, produced double digit underlying earnings per share growth. This success is a reflection of the strength of the Group and the ongoing delivery of the underlying strategy. Furthermore, we have continued to invest in our infrastructure and product development pipeline and have made two earnings enhancing acquisitions to ensure we are well positioned to maintain good future growth prospects.

#### Our Strategy for Delivering and Maintaining Value

The Group has a clear strategy for growth by providing novel and specialist products together with innovative services to the veterinary profession. Additionally, we provide contract manufacturing services to other pharmaceutical companies.

#### Products

The primary strategic objective of the Group is to develop a high growth, cash generative veterinary products business. This is achieved by increased market shares of existing products and increasing the depth of the product range by:

- pharmaceutical development of novel companion animal and equine products;
- approval of pharmaceutical generic products;
- the continued development and innovation of our branded pet diets; and

- acquiring or in-licensing specialist pet products which can be marketed through existing sales and customer channels.

Furthermore, we are:

- increasing geographical coverage through the creation of our own subsidiaries in countries where we are not currently represented; and
- improving and developing sales growth through our export partners in non-subsidiary territories.

#### Services

The key strategic objectives in this segment are to:

- continue improving logistics excellence;
- maintain or reduce operating costs as a percentage of sales;
- improve our service offerings relative to our competitors; and
- position the businesses so that our customers and ourselves are best placed to take advantage of a changing marketplace.

#### 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

Two acquisitions were completed in the period.

### DermaPet

*DermaPet*, a Florida based dermatological business, was acquired in October 2010 for a potential total consideration of US\$64.0 million. The acquisition strengthened our position as a leader in the worldwide veterinary dermatological market. As a result, we have been able to significantly increase our US sales and marketing capabilities. *DermaPet* has now been fully integrated into DVP US and expected sales and cost synergies are beginning to be realised. We have modernised the packaging and are presenting it in Dechra livery. The Group has also identified opportunities to increase sales and geographical coverage of this range within Europe.

### Genitrix

In December 2010 we completed the acquisition of *Genitrix*, a privately owned veterinary company with a range of products complementary to Dechra's, for a potential total consideration of £6.4 million. The *Genitrix* brands are currently sold exclusively within the United Kingdom. The rationalisation of the business was completed at the end of January 2011 with the closure of their warehouse and office facility. A number of the *Genitrix* sales team have been appointed within the Dechra Group and cost synergies are now being realised.

The main future strategic objective is to extend the *Genitrix* product range into other EU territories. *Libromide*®, a recently approved canine epilepsy product for the UK, is being taken through Mutual Recognition to gain approval throughout Europe. Two other products, *Xeno*® and *RIP Fleas*®, are also being considered for launch in other selected territories.



## Directors' Report: Our Performance

### Case Studies

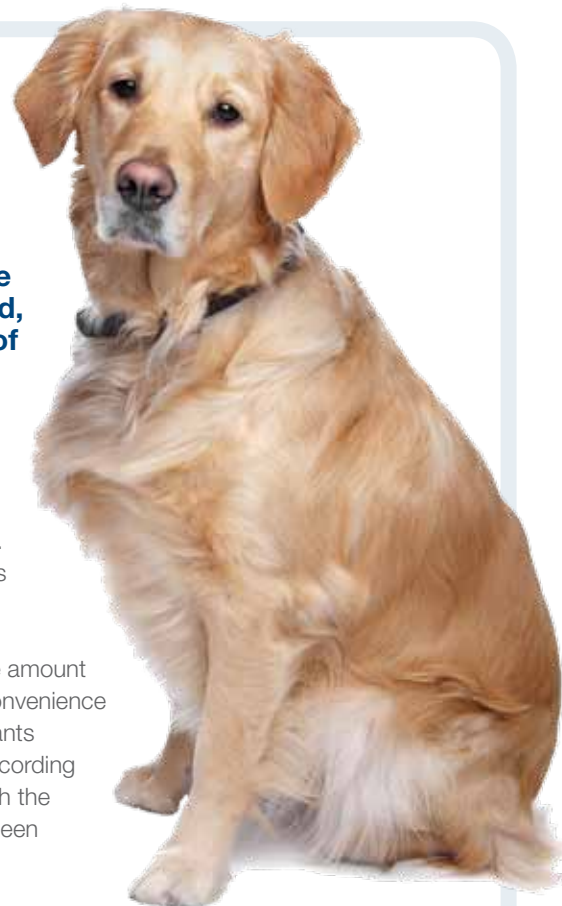
#### Webinars

**During 2011 we launched *Felimazole*<sup>®</sup> and *Vetoryl*<sup>®</sup> throughout Dechra's Nordic sales and marketing subsidiaries.**

**To improve the levels of diagnosis of feline hyperthyroidism and canine Cushing's syndrome (for the conditions which *Vetoryl* and *Felimazole* are used to treat, see page 11) across Denmark, Finland, Norway and Sweden, we developed a programme of webinars.**

We worked with two globally renowned veterinary endocrinologists, who led a series of Dechra branded web-based seminars. These were attended in real time, by veterinarians from across the Nordics, accessing the presentation via the internet from their own computers. The audience watched the presentations and listened to the speakers and also participated in interactive question and answer sessions.

This new service was well received by our customers. A considerable amount of positive feedback about the quality of the presentations and the convenience of this medium was received from veterinarians. In total, 645 participants attended four webinars in February and March 2011. In addition, a recording of the webcasts is available to veterinary professionals to view through the Dechra Veterinary Products website, [www.dechra.com](http://www.dechra.com). There have been 1,400 viewings to date.



Following the success of these initial webinars a programme of similar events has been rolled out across Europe; there are now several webcasts available on the website. Over 600 vets in the UK registered for a new webinar on otitis in June this year.

## Endocrinology

**Endocrinology describes all diseases arising from disorders of the endocrine system. These include total failure of hormone production, underproduction of a hormone, or overproduction of a hormone by an endocrine gland.**



### What is Feline Hyperthyroidism?

It is the most common endocrine disorder in middle-aged and older cats. It is caused by the overproduction of thyroid hormones and occurs when either one or both thyroid lobes enlarge.

Thyroid hormones (T4 and T3) regulate the body's rate of metabolism so cats with hyperthyroidism have an excessive amount of these hormones in the blood. This dramatically increases their metabolic rate and often results in weight loss, despite the cat having a ravenous appetite.

Diagnosis is usually very straightforward. In the majority of cases, a veterinary surgeon will be able to feel the enlarged thyroid lobe(s) in the neck. Blood samples taken from a cat will usually confirm the diagnosis.

Regular treatment with Dechra's branded prescription medicine *Felimazole* reduces the production of thyroid hormones, returning the cat to its normal euthyroid state.

### What is Hyperadrenocorticism or Cushing's Syndrome?

The condition is usually seen in older dogs and is one of the most commonly diagnosed canine endocrine disorders. It occurs when a dog is exposed to high levels of the hormone cortisol in the blood.

Cortisol, which is released from the adrenal glands, is controlled by the hormone ACTH which is produced by the pituitary gland. Dogs with Cushing's syndrome have a tumour either in their pituitary gland or in their adrenal glands, both of which result in excessive amounts of cortisol. Over time, the clinical signs of Cushing's syndrome will develop, which can include excessive drinking and urination, a ravenous appetite, a pot belly and hair loss.

Diagnosis can be complex; blood tests that assess the capacity of a dog's adrenal glands to produce cortisol are routinely used to support diagnosis.

Treatment with *Vetoryl*, Dechra's leading global product, reduces the level of cortisol in a dog's blood by inhibiting the production of cortisol. As *Vetoryl* does not cure Cushing's syndrome (the tumour is usually still present), in the majority of cases treatment must be continued for the rest of the life of the animal.



## Directors' Report: Our Performance

### Key Products and Specialisations

The product range is unique as it is entirely focused on companion animals and horses. The majority of our key products are novel or have clear marketing advantages over competitor products. Most of our branded range have market leading positions in the majority of territories in which we operate.

#### Dermatology



*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*.

#### Endocrinology



Endocrine disorders are a key focus for the business with a number of licensed products treating a range of chronic diseases. The two leading brands are *Veteryl* and *Felimazole*.

*Veteryl* 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.

*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 Australia and Canada.

#### Equine Medicine



We have 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 is still the leading non-steroidal anti-inflammatory drug (NSAID) for the treatment of musculoskeletal disorders, such as lameness due to acute and chronic laminitis in the horse.

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

#### Ophthalmology



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

*Fucithalamic*® 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.

We also market a range of ophthalmic and otic products in the USA, the long term marketing rights of which were acquired in May 2007. There are six products in the range, most of which are the only veterinary licensed products in the American market.



## 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.

*Libromide*, acquired as part of the *Genitrix* acquisition as outlined earlier, was approved in 2010. It is the only licensed product of its type which is used in combination with other pharmaceuticals for the management of epilepsy in dogs.

## 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.



## 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 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.

## 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.

## Marketing Agreements



A number of products are also sold through our global subsidiaries under marketing agreements with:

- Eurovet to market *Domidine*®, *Sedator*® and *Atipam*® in the UK and Ireland;
- Orthogen to market *Irap*® in the USA;
- Peptech Animal Health Pty Limited ("Peptech") to market *Ovuplant*® in the USA, Canada and EU; and
- Krka to market *Rycarfa*® in the EU.

## Directors' Report: Our Performance

### Product Development

*"Our product pipeline continues to deliver novel pharmaceuticals, generic pharmaceuticals, line extensions, approvals of existing products into new territories and new innovative pet diets"*

#### The Business and its Markets

Dechra operates under four segments:

- **Product Development;**
- **European Pharmaceuticals** which comprises Dechra Veterinary Products Europe ("DVP EU") and *Dales* Pharmaceuticals ("*Dales*");
- **US Pharmaceuticals** comprising Dechra Veterinary Products US ("DVP US"); and
- **Services** comprising National Veterinary Services ("*NVS*") and our Laboratories, NationWide Laboratories ("*NWL*") and Cambridge Specialist Laboratory Services ("*CSLS*").

The Group employs 1,010 people, operates out of 14 countries and exports products globally.

#### 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 product's potential for inclusion in the development pipeline are:

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

Our product development is concentrated in three areas:

- Prescription only veterinary medicines ("*POMs*") for dogs, cats and horses. We target products in specialist therapeutic areas and focus on novel ideas 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 and not research based.



- 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 an 11.9% increase in expenditure over the corresponding period last year. The development team has been increased to 25 people who are located in the United States, United Kingdom and Denmark. Dosage form development work is conducted in the UK; regulatory work is conducted in the UK and Denmark and the majority of safety and efficacy trials are controlled by our US team. There have been several approvals within the year:

- *Equidone* Gel, a specialist novel equine product, in the US;
- *Vetoryl*, the Group's largest product, in Japan;
- 10mg *Vetoryl*, which increases dosing options, in Australia;
- *Felimazole* 2.5mg, low dose preparation, approved in the Nordics;
- *Malaseb*, our dermatological product, recently licensed in mainland Europe is now approved in Norway;
- *Clavudale*®, an antibiotic generic, throughout Europe via the Mutual Recognition procedure;
- *Urilin*®, a bitch incontinence product, throughout Europe via the Mutual Recognition procedure;
- *Rycarfa*, a flavoured analgesic tablet, in the EU;
- *Alvegesic*®, an analgesic injection, in the UK; and
- *Fiprodog*®, a generic flea product in the UK.

*Alvegesic*, *Rycarfa* and *Fiprodog* are products which were gained through licensing agreements with European partners.

We have also achieved a number of other regulatory successes including:

- the transfer of the Marketing Authorisations of the *Genitrix* products and *Vetoryl* from our previous EU marketing partners to Dechra;
- the regulatory changes needed to transfer the manufacturing of *Canaural* and *Fuciderm* in-house;
- work has begun on the difficult regulatory task of transferring the ophthalmic products, acquired from Nycomed for the US market last year, into a new manufacturer.

Three new diet ranges have been developed:

- Canine Omega Support Diet: an effective support for a number of clinical conditions including the treatment of allergic dermatitis and for recovery from cancer and canine heart failure;
- Feline Crystal Diet: a newly formulated cat diet optimised for the long term prevention of struvite crystals and prevention of recurrence of struvite crystals and uroliths; and
- a certified organic range which are the first organic diets targeted for sale through veterinary practices. These are palatable and nutritionally balanced diets for healthy pets.



## Directors' Report: Our Performance

### Product Pipeline

As can be demonstrated by the achievements outlined earlier in this report, our product pipeline continues to deliver novel pharmaceuticals, generic pharmaceuticals, line extensions, approvals of existing products into new territories and new innovative pet diets.

#### New Chemical Entities

Development of new molecules to the veterinary profession is ongoing. Significant progress has been made on an equine lameness product, with both the safety and efficacy studies being completed. Unfortunately, there has been a six month delay as we have had to change the outsourced manufacturer. All other novel products, outlined in the following table, continue to make progress. We have, over the period, conducted two 'proof of concept' studies, one of which, a canine dermatological product, has been added to the development programme. We have reached contractual agreement for exclusive use of a novel patented human pharmaceutical for this dermatological product and for a second application in another key therapeutic sector.

Species	Therapeutic Category	Target Approval
Equine	Lameness	2013
Canine	Endocrine	2014
Feline	Endocrine	2015
Feline	Gastrointestinal	2014
Canine	Dermatological	TBD

At maturity these products should cumulatively generate £25 million to £30 million revenue annually.

#### Generics and Unlicensed Products

A number of generic products that complement our existing range or are sold within our key therapeutic sectors are under development. Reformulation, improvement and innovation in our unlicensed products are also ongoing.

Species	Therapeutic Category	Target Approval
Canine	Epilepsy	2011
Equine/Canine	Euthanasia	2012
Canine/Feline/Equine	Pain Management	2012
Canine/Feline	Pain Management	2013
Feline	Endocrine	2013
Feline	Endocrine	TBD

At maturity these products should cumulatively generate £4 million to £5 million revenue annually.



## Pet Diets

Development of novel therapeutic pet diets continues and numerous formulation changes to improve efficacy and palatability are ongoing. We have also signed a contract with Biomarine, a Norwegian government funded project, to research the use of bioactive peptides in the treatment and prevention of diseases in pets. This project puts Dechra in the frontline of research into innovative ingredients for the next generation of therapeutic pet foods.

A novel product *Specific* CED Endocrine Support is in the final stages of development. The product is an innovative therapeutic diet to support the medical treatment of adult dogs with endocrine disorders including the treatment of diabetes and Cushing's syndrome.

In the autumn, a re-optimised wet food range will be introduced in flexible cans with a new design. The maintenance wet food range will be extended with a senior wet food version (*Specific* CGW Senior) for dogs as well as cats (*Specific* FGW Senior). The senior diets give our customers the choice to feed their pets a healthy and palatable diet which helps to prevent geriatric diseases.

Species	Product	Project	Target Launch Date
Canine/Feline	Senior wet diets	Completion of maintenance wet food range	2011
Canine	Endocrine	New therapeutic dry diet for endocrine support	2011
Feline	Gastrointestinal	New therapeutic dry and wet diet for gastrointestinal support	2011
Feline	Joint	New therapeutic dry and wet diet for joint support	2012
Canine/Feline	Hypo allergenic	Development of new hypo allergenic diets based on alternative protein sources	2013
Canine/Feline	Novel	Use of bioactive peptides in therapeutic diets	2014



## Directors' Report: Our Performance Introducing the DVP Country Managers

Dechra Veterinary Products currently operates out of 14 countries, each of which is headed up by a Country Manager whose background encompasses a wealth of animal health knowledge and experience. These managers are integral to the success of the sales and marketing of our products in their countries.

### United States

**Mike Eldred**

**email:** [info@dechra.com](mailto:info@dechra.com)

**web:** [www.dechra-us.com](http://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 41.

### Denmark

**Mette Trige MSc**

**email:** [info.dk@dechra.com](mailto:info.dk@dechra.com)

**web:** [www.dechra.dk](http://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.

### UK & Eire

**Bob Parmenter**

**email:** [info.uk@dechra.com](mailto:info.uk@dechra.com)

**web (UK):** [www.dechra.co.uk](http://www.dechra.co.uk)

**web (Eire):** [www.dechra-eu.com](http://www.dechra-eu.com)



Bob Parmenter was appointed in July 2008 as the Country Manager of the UK and Eire. He has over 41 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 in April 2010.

### France

**Florence Lasvergères DVM MBA**

**email:** [info\\_fr@dechra.com](mailto:info_fr@dechra.com)

**web:** [www.dechra.fr](http://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 21 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.

### Spain & Portugal

**Jesper Graff BBA MBA IESE**

**email:** [info.es@dechra.com](mailto:info.es@dechra.com)

**web:** [www.dechra.es](http://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 15 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 IESE in Spain.

## 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 23 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.

## Sweden



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

Carina Kjellberg started in 2000 and was appointed as the Country Manager of Sweden in 2005. She has over 20 years' experience in the animal health business, 11 of which were working as a veterinary nurse.

## 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 both Sweden and Finland, in 1984 and 1988 respectively. Henri has over 19 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.

## Germany



**Dr Michael Hemprich MRCVS**  
 Dr.med.vet  
**email:** info.de@dechra.com  
**web:** www.dechra-eu.com

Dr Michael Hemprich started work with Dechra in September 2006 as Business Development Manager; in addition to this role, in 2010 he was appointed the Country Manager for Germany. He has over 15 years' experience in the animal health business, having worked for LAB Development Intl in Montreal, Canada, Intervet Innovation GmbH and Bremer Pharma GmbH, mainly within Regulatory Affairs, Product Development and Business Development.

## Benelux



**Ad van Beysterveldt**  
**email:** info.nl@dechra.com  
**web:** www.dechra.nl

Ad van Beysterveldt was appointed as the Benelux Country Manager (Belgium, Netherlands & Luxemburg) in January 2011. Ad has more than 25 years' experience in the pharmaceutical industry, the majority of which was with Bristol-Myers Squibb. He has also worked for Cephalon and EUSA Pharma and has worked in several European countries, the USA and Asia Pacific region in senior management positions.

## Directors' Report: Our Performance

**European Pharmaceuticals:** This segment comprises DVP EU and Dales.

### DVP EU Management Team



**Ed Torr**  
Managing Director



**Carsten Jeppesen**  
Chief of Logistics



**Roeland Meijers**  
Director of Diets



**Giles Coley**  
European Pharmaceutical  
Sales & Export Director



**Gwenda Bason**  
European Marketing  
Director

### What we do

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

### Operational Structure

The business has an operating board of five senior managers. Finance, IT, pre-wholesale logistics, marketing and HR are centred in Uldum, Denmark and Hadnall, England.

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.

We currently employ 73 representatives across these territories. DVP EU employs 214 people.

### Our Market

Our customers are small animal and equine veterinary surgeons, predominantly operating out of commercial veterinary practices. European companion animal veterinary markets are currently only realising inflationary growth as footfall in most territories is declining due to the worldwide economic difficulties. Internet pharmacies, especially in the UK, are demonstrating stronger levels of growth as consumers look to reduce the cost of pet and horse ownership. Animal numbers in the major territories have remained static in the period being reported. The UK is currently our largest market with approximately eight million cats, seven million dogs and one million horses.

### Key Strengths

We are unique in having a veterinary exclusive range of products with a clear focus on companion animals and horses. The majority of our products are novel and, on the whole, are used to treat medical conditions for which there is often no other effective solution. Our key marketing benefit, especially on diets, is that our products are only sold to veterinary practices.

### Achievements

Third party European marketing contracts, which were negotiated prior to the development of our own sales and marketing infrastructure, have now been terminated. *Vetoryl* and *Felimazole* have been marketed in-house through our Nordic subsidiaries since January 2011 and have now been transferred into Dechra livery for sale through our other mainland European subsidiaries since July 2011. We will also commence the in-house marketing of *Canaural*, *Fuciderm Gel* and *Fucithalmic Vet* into Germany and Belgium and also our *Specific* range of pet diets into Belgium. In Germany these products will be distributed in Dechra livery through our existing partner, Selectavet. In Belgium we have created a new business unit which will be managed out of the Netherlands by a newly appointed Benelux manager, with sales and technical support staff being appointed within the country. The benefit of marketing products through our own subsidiaries is a significant increase in the retained gross margin for the Group. The full impact of this will be realised in our financial year ending 30 June 2012.







Following the closure last year of our pre-wholesale warehouse in Shrewsbury, England, we have relocated our UK sales, marketing, technical and regulatory teams to a new single site. This environmentally sensitive office facility provides excellent working conditions for our employees and reflects the growth and development of our pharmaceutical business.

Pharmaceutical sales increased by 9% in the period.

There were a number of product launches through our own subsidiaries and through our worldwide marketing partners:

- a low dose 2.5mg *Felimazole* launched in the Nordics;
- *Alvegesic* launched in Denmark, Sweden and France following its successful introduction into the UK last year;
- *Vetoryl* launched in Japan through our partner Kyoritsu Seiyaku Corporation;
- *Fiprodog* and *Fiprocat*®, generic flea products, were launched in the UK;
- *Rycarfa* was launched just after the year end in the UK, France, Germany and Spain; and
- preparations are being made to launch *Clavudale* and *Urilin* across the EU following their recent approvals.

We have successfully integrated the new products from the *Genitrix* and *DermaPet* acquisitions and are at an advanced stage of introducing them in Dechra livery. The *DermaPet* range, which was previously only marketed in the UK and Nordic regions, is also being prepared for launch in other subsidiary territories.

Our *Specific* pet diets have outperformed the competitors in most territories in which we operate and have grown 8% over the period. This has been achieved by our unique position of veterinary exclusivity and by keeping price increases to a minimum. Raw material costs, however, have increased significantly over the period resulting in a margin performance slightly below last year. The canine and majority of feline diets have been successfully transferred into a new manufacturer, resulting in improved quality and palatability. The Feline Crystal diet, Canine Omega Support diet and Organic range, outlined under Product Development, have been successfully launched. Following an agreement to license the formulation, brands and technical support of our *Specific* therapeutic diets to a US marketing and manufacturing company, the first two products were launched in June 2011. The products are manufactured and sold by iVet under the *Specific* brand into the extensive American market. Dechra will receive a royalty on all sales. The therapeutic diets have also been launched through a marketing partner in South Korea, a fast developing market. *Specific* therapeutic diets are also currently being launched in the UK and a number of major practices have agreed to market the range. This is a pleasing opening as we begin to establish the brand in this highly competitive market.

**Directors' Report: Our Performance**  
**European Pharmaceuticals** continued

**Dales Management Team**



**Mike Annice**  
Managing Director



**Kirsty Ireland**  
Finance Director



**Steve Dewar**  
Operations Director



**Gareth Davies**  
Sales and Marketing  
Director



**Andrew Parkinson**  
Quality Director

**What we do**

*Dales* manufactures the vast majority of our own branded, licensed pharmaceutical products which are marketed through DVP, but also derives approximately 50% of its revenues from third party toll manufacturing, predominantly for human pharmaceutical companies. This is Dechra's only significant source of revenue not derived from the veterinary market.

**Operational Structure**

The business has an operating board of five senior managers. The majority of manufacturing is located in Skipton, England and employs 200 people. There is also a small manufacturing facility in Uldum, Denmark which employs 26 people.

**Our Market**

The primary customer for *Dales* is DVP EU. Our toll manufacturing customers are, in the main, small or mid sized UK based pharmaceutical companies.

**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 tablets, capsules, liquids, creams, gels and powders and our ability 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**

Total overall production in the year increased by 1.2% over the corresponding period last year. However, contract manufacturing decreased by 6.5% due to a planned reduction in production by our biggest customer. Five new contracted products were introduced with a further three products in formulation for future manufacturing for third party customers. We have successfully transferred the manufacturing of *Fuciderm* and are in the process of transferring *Canaural* into *Dales*. These key DVP products were previously outsourced. Throughout the year we have improved our service level, increased yields, reduced waste and have therefore exceeded productivity targets. FDA inspections have been conducted within the year and the control points raised have been remedied. We hope to receive notification of compliance and be able to manufacture *Vetoryl* for the US market imminently.



## 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. Finance, HR and pre-distributor logistics are all currently outsourced. Our business is located in Kansas City, USA and employs 33 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 US households own a pet which equates to 73 million homes. Additionally, the number of pets is increasing with a current estimated population of 86 million cats, 78 million dogs and 8 million horses.

### Key Strengths

Our key pharmaceuticals, which are the focus of the majority 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 in the year was 51.5% higher than the previous year and includes the *DermaPet* acquisition completed in October 2010. Underlying growth, on a like for like basis at constant currency, was 3.6%. This strong growth has allowed us to significantly increase our infrastructure with additional marketing, operational and sales representatives being employed in the year. Further sales and technical support staff are also currently being recruited.

Sales of *Vetoryl*, our key product, increased by 30% in the year to US\$8.6 million. Almost 13,000 veterinary clinics have purchased *Vetoryl*. A report from an external audit demonstrated that Cushing's syndrome is being under diagnosed and that education and training is essential for future growth. During the year, 56 meetings were conducted by our two technical veterinarians with almost 1,600 attendees. We also sponsored ten meetings with external key opinion leader speakers with over 400 attendees. We are in the process of hiring two additional field veterinarians to increase our educational programme.

We continue to experience unregulated sales of Trilostane, the active principal ingredient in *Vetoryl*, through illegal compounding. We have invested a significant amount of funds to lobby senators on Capitol Hill in an attempt to force the FDA to take action against compounders. We are now looking to work with other animal health companies to continue this lobbying.

In December 2010 we successfully launched *Equidone Gel* to US equine veterinarians following its full approval by the FDA.

Supply issues remain with our otic and ophthalmic products from our third party suppliers, having a negative US\$2 million impact on like for like sales; however, progress is being made on the transfer, validation and re-registration of these products into a new facility. We hope to be able to re-launch the major products in 2012.

## Directors' Report: Our Performance

**Services:** This segment comprises NVS and our Laboratories, NWL and CSLS

### NVS Management Team



**Martin Riley**  
Managing Director



**Dan Shipman**  
Finance Director



**Steven Williams**  
Operations Director



**Caitrina Harrison**  
Sales and Marketing  
Director



**Colin Higham**  
Buying Director

### 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 stock 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 five experienced directors. NVS employs 455 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 arrive at NVS automatically with no human input required.

### 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 declined in the year, although the overall market continues to demonstrate growth, predominantly from inflation. 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 and a reliable next day national delivery service. It also supplies a range of business solutions for veterinary practices including practice management software, benchmarking systems and marketing and business support.



### Achievements

NVS has retained its market share above 40%; however, with growth of 3.9% over last year, we have slightly underperformed market growth relative to our competitors as we supply a smaller percentage of our sales into the higher growth food animal production and online pharmacy sectors. These sectors offer relatively low margins. We did, however, outperform the market in the fourth quarter with growth of 6.4%.

The most significant achievement in the year was the successful implementation of a new integrated IT system across the business which went live on 1 July 2011. Very few problems were encountered and virtually no supply issues were experienced by our customers. The second phase of implementation has now commenced, which will allow us to focus on improving management data and providing new services to customers.

Further cost savings as a percentage of sales were recognised in the year due to investment in new pallet picking technology and efficiencies gained by shift changes in the warehouse. Further efficiencies will be gained as we increase the efficiency of the picking circuit and improve utilisation of our distribution system.

We have continued to develop our own label disposable product range, branded the Valu range. Further development in this range is planned in the new financial year.

Our business partnership relationship with our customers has continued; new services have been launched such as mystery shopping to ascertain practices customer relationship skills, stock-taking services via vPOD, NVS Online, which personalises self-service practice data provision and we have developed strategies with practice management software suppliers to improve stock control integration and efficiencies within veterinary practices.

### NVS Network



**Directors' Report: Our Performance**  
**Services** continued

**Laboratories Management Team**



**Dr Peter Graham**  
Managing Director



**Jamie Whitwam**  
Business Development  
Manager



**Mark Davies**  
Sales and Marketing  
Manager



**Paul Sandland**  
Finance Director

**What we do**

NWL is a first referral veterinary laboratory. We provide histology, pathology, haematology, chemistry and microbiology services to veterinary practices. CSLS provides secondary referral services with our key area of expertise being endocrinology. CSLS 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 75 people, are run by an operational board of three senior managers and are supported by the Group Financial Controller who also sits on this board. NWL is located in Poulton-le-Fylde, Leeds and Swanscombe, and CSLS is located in Sawston, England. 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**

NWL's customers are UK commercial veterinary practices. We have historically provided support to companion animal practices; however, in the last two years we have introduced an increased range of large animal and equine services. CSLS provides some first level support similar to NWL to UK veterinary practices; however, 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**

It has been a very difficult year for laboratory services. As expected, expensive diagnostic procedures have reduced significantly due to lower footfall through veterinary practices. We have, however, recently launched the FUJI Film Dry Chemistry Analyser which is a system that allows simple diagnostic testing of blood within veterinary practices. During the year, we have 24 analysers placed in practice. The main revenue driver is the repeat orders of disposable test slides which are used within the machines.





## Directors' Report: Our Performance Information Technology and HR



Major changes and improvements in the Group's technology capabilities have been implemented in the period.

### Drug Monitoring

During the period, the Regulatory team have implemented an electronic pharmaceutical monitoring and reporting system which can communicate adverse reactions electronically to the FDA in the USA.

### ERP Systems

NVS, our veterinary distributor, successfully implemented a new ERP system provided by IFS on 1 July 2011. The new system will provide enhanced management information, improve the interface with other Group reporting systems and create operational flexibility upon which we can develop new services.

An Oracle system was implemented at our UK manufacturing business, *Dales*, two years ago. This was also successfully implemented at our Danish manufacturing site in November 2010. A programme has commenced to roll out Oracle across the entirety of our European Pharmaceutical segment businesses and eventually into DVP US.

Our Laboratories have identified a new IT system, Autoscribe, which is targeted to be implemented within the current calendar year.

### Customer Solutions and Ordering Platform

We currently market two veterinary practice management systems through our veterinary distributor, NVS. *Vetcom*<sup>®</sup> Open, our most advanced system which is developed through a partnership agreement, has made significant programming and functionality advancements and now has competitive benefits over other market leading systems. *Vetcom* Windows, our in-house developed introductory practice management system, has also been modernised and developed ready for re-launch. Work has now commenced on updating vPOD, our hand-held stock control and ordering terminal, to allow it to operate on android hardware.

NVS has also updated Indices, a system which allows our veterinary customers to benchmark their performance against comparable practices on both a regional and national basis. The new system is faster and easier to use and has significantly enhanced functionality allowing veterinary practices greater access to business information.

### Communication Tools

Within Dechra Veterinary Products we have continued to invest in state of the art online communication tools. We are one of the leading companies within the veterinary industry to offer educational webinars. Since inception we have conducted six online webinars in the UK with over 1,000 attendees and four in the US with over 500 attendees.



In addition to webinars we offer online continued professional development courses branded the Dechra Academy. We have approximately 9,000 registrations from veterinarians and veterinary nurses for this educational programme.

Our Dechra Veterinary Product websites are constantly being updated with technical and clinical information. All of the *Genitrix* and *DermaPet* products have now been integrated onto the DVP EU and US websites. We are also currently updating this site into other languages. The German site launch is imminent; the French and Spanish translations are in progress.

An e-newsletter is now distributed monthly to over 7,000 veterinary professionals within the UK. This medium is used to provide up-to-date product and Dechra Academy information.

## HR

The Group HR Director, supported by a steering group of senior managers, has defined the principles of standards and behaviour to achieve and promote a high performance culture. These criteria have become known as the Dechra Values, a summary of which are outlined in the Corporate and Social Responsibility section of this report on pages 65 and 66. The steering group has also developed a performance management mechanism incorporating the Dechra Values which will be used annually to review employees and provide a basis for future reward and development.



**Directors' Report: Our Performance**  
**Key Performance Indicators ("KPIs")**

Financial	Method of Calculation	Target
<b>Revenue from key pharmaceutical products</b>	Global revenue from our top five products	To achieve annual revenue growth of at least 10%
<b>Revenue from specialist pet diets</b>	Global revenue from the <i>Specific</i> brand of pet diets	To achieve annual revenue growth of at least 6%
<b>Underlying operating margin before product development cost</b>	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
<b>Cash conversion rate</b>	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%
<b>Return on capital employed ("ROCE")</b>	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
<b>Pharmaceutical product development pipeline</b>	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
<b>Health and safety performance</b>	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
<b>Employees</b>	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%

2011 Performance	Five Year Record
<p>The KPI was exceeded during the year with a growth rate of 12.8% being achieved. <i>Vetoryl</i> and <i>Felimazole</i> grew particularly strongly</p>	<p>2011 <b>33.2</b> £ million                  2010 29.4                  2009 23.6                  2008 15.3*                  2007 10.6*</p> <p>* <i>Canaural</i> and <i>Fuciderm</i> acquired in January 2008</p>
<p>Despite increasingly competitive markets a growth rate of 8.1% was achieved</p>	<p>2011 <b>27.6</b> £ million                  2010 25.6                  2009 22.7                  2008 9.9*                  2007 n/a*</p> <p>* <i>Diets range</i> acquired in January 2008</p>
<p>Further progress towards the medium term target was made with the increased operating margin from our US business making a strong contribution</p>	<p>2011 <b>9.5</b> %                  2010 8.9                  2009 8.1                  2008 7.1                  2007 6.1</p>
<p>The target rate of 100% has not been achieved this year principally due to additional payment terms being offered to certain large <i>NVS</i> customers</p>	<p>2011 <b>82.8</b> %                  2010 100.8                  2009 112.5                  2008 94.2                  2007 103.3</p>
<p>Although ROCE fell slightly in 2011 due to the acquisitions made in the period the figure is still well ahead of the WACC of the Group</p>	<p>2011 <b>21.6</b> %                  2010 22.6                  2009 19.4                  2008 23.3                  2007 37.5</p>
2011 Performance	Five Year Record
<p>Three novel diets launched and three pharmaceutical products launched within the EU</p>	<p>2011 <b>6</b> Products                  2010 6                  2009 5                  2008 3                  2007 3</p>
<p>There has been an increase in the total number of accidents during the year from 14 to 15. 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 64 to 68</p>	<p>2011 <b>0.82</b> LTAFR                  2010 0.75                  2009 0.94                  2008 n/a*                  2007 n/a*</p> <p>* Information not collected for these years</p>
<p>The MAT increased from last year's 15.88% to 19.03%. A reorganisation within our <i>NVS</i> warehouse and a higher than normal number (21) of retirements has contributed to this year's MAT target not being met. More detail in relation to this can be found in the Social, Ethical and Environmental Responsibilities report on pages 64 to 68</p>	<p>2011 <b>19.03</b> %                  2010 15.88                  2009 19.81                  2008 29.7                  2007 n/a*</p> <p>* Information not collected for these years</p>

**Directors' Report: Our Performance**  
**Financial Review**

*“Revenue from US Pharmaceuticals grew by 51.5% in the year with the biggest single contributor being the DermaPet product lines which were acquired in October 2010”*

Simon Evans, Group Finance Director



**Group Performance**

**Financial Highlights**

	Underlying Results			Reported Results		
	2011 £'000	2010 £'000	Change %	2011 £'000	2010 £'000	Change %
<b>Revenue</b>	<b>389,237</b>	369,369	5.4	<b>389,237</b>	369,369	5.4
Gross profit	<b>88,361</b>	80,625	9.6	<b>88,361</b>	80,625	9.6
% of revenue	<b>22.7%</b>	21.8%		<b>22.7%</b>	21.8%	
Distribution costs	<b>(17,659)</b>	(16,242)	(8.7)	<b>(17,659)</b>	(16,542)	(6.8)
Selling, general and administrative expenses	<b>(33,658)</b>	(31,527)	(6.8)	<b>(43,763)</b>	(39,551)	(10.6)
Research and development expenses	<b>(5,221)</b>	(4,666)	(11.9)	<b>(5,221)</b>	(4,666)	(11.9)
<b>Operating profit</b>	<b>31,823</b>	28,190	12.9	<b>21,718</b>	19,866	9.3
% of revenue	<b>8.2%</b>	7.6%		<b>5.6%</b>	5.4%	
<b>Profit before taxation</b>	<b>30,069</b>	26,056	15.4	<b>18,514</b>	17,732	4.4
Taxation	<b>(7,321)</b>	(6,619)		<b>(4,380)</b>	(4,575)	
<b>Profit after tax</b>	<b>22,748</b>	19,437		<b>14,134</b>	13,157	
Earnings per share	<b>34.33p</b>	29.50p	16.4	<b>21.33p</b>	19.97p	6.8
Operating cash flow before interest and tax payments	<b>25,374</b>	26,662	(4.8)	<b>25,374</b>	26,662	(4.8)
Cash conversion rate	<b>82.8%</b>	100.8%		<b>82.8%</b>	100.8%	
Free cash flow	<b>9,294</b>	9,938	(6.5)	<b>9,294</b>	9,938	(6.5)
Tax rate	<b>24.3%</b>	25.4%		<b>23.7%</b>	25.8%	
<b>Total dividend per share</b>	<b>12.10p</b>	10.50p	15.2	<b>12.10p</b>	10.50p	15.2
<b>Net borrowings</b>	<b>34,091</b>	6,701		<b>34,091</b>	6,701	

**Analysis of Revenue and Underlying Operating Profit Growth**

	Revenue		Underlying Operating Profit	
	£'000	%	£'000	%
Year ended 30 June 2010	369,369		28,190	
Organic growth at constant currency	14,574	3.9	1,194	4.2
Impact of acquisitions	6,558	1.8	2,722	9.7
Impact of foreign currency movements	(1,264)	(0.3)	(283)	(1.0)
<b>Year ended 30 June 2011</b>	<b>389,237</b>	<b>5.4</b>	<b>31,823</b>	<b>12.9</b>

## Revenue

	2011 £'000	2010 £'000	Change %
<b>European Pharmaceuticals</b>			
Own branded pharmaceuticals	48,614	44,695	8.8
Diets	27,621	25,559	8.1
Third party contract manufacturing	10,772	11,524	(6.5)
Instruments, consumables and equipment	2,280	2,859	(20.3)
<b>Total European Pharmaceuticals</b>	<b>89,287</b>	84,637	5.5
<b>US Pharmaceuticals</b>	<b>16,107</b>	10,634	51.5
<b>Services</b>			
Veterinary wholesaling	291,180	280,385	3.9
Laboratories	5,078	5,285	(3.9)
<b>Total Services</b>	<b>296,258</b>	285,670	3.7
Inter-segment	(12,415)	(11,572)	
<b>Total revenue</b>	<b>389,237</b>	369,369	5.4

Group revenue increased by 5.4% compared to last year. During the year the Group acquired *DermaPet* Inc., based in Florida, and *Genitrix* Limited, based in the UK. These two acquisitions contributed 1.8% of growth in revenue. Currency fluctuations had a negative impact on revenue of 0.3%.

Within the European Pharmaceuticals segment, own branded pharmaceuticals performed robustly with most of our key brands showing solid growth. As disclosed in the KPI table, our leading five brands achieved growth of 12.8% compared to last year.

Diets revenues grew by 8.1% overall. Some pressure on revenue was experienced in the second half of the financial year as economic conditions in a number of European countries weakened.

As expected, contract manufacturing revenues were 6.5% lower than last year due to a planned reduction in production for our biggest single third party contract. However total production levels increased due to higher volumes of our own products.

Revenue from US Pharmaceuticals grew by 51.5% in the year with the biggest single contributor being the *DermaPet* product lines which were acquired in October 2010. *Vetoryl* also achieved good growth whilst there was an initial contribution from *Equidone*, our equine product launched

in December 2010. As, previously reported, issues with a third party supplier meant that sales of our ophthalmic and otic ranges were approximately US\$2 million lower than the previous year.

Within our Services segment, our UK veterinary wholesaler, *NVS*, achieved revenue growth of 3.9% in the financial year with some acceleration of this growth rate achieved in the fourth quarter. Revenue from our Laboratories business was down by 3.9% reflecting the difficult market.

## Gross Profit

Gross profit for the Group was up by 9.6% from £80.6 million to £88.4 million with the gross margin increasing by 90 basis points. This was predominantly driven by increased revenue from higher margin pharmaceuticals. Diets gross margin fell slightly as raw material costs and currency impacted results. The gross margin achieved by our wholesaler, *NVS*, was broadly stable compared to last year.



**Directors' Report: Our Performance**  
**Financial Review** continued

**Underlying Distribution Costs**

Distribution costs increased by 8.7% from £16.2 million to £17.7 million. As well as increased volumes, the main factor in this increase was fuel costs, which was mitigated by efficiency savings.

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

Underlying SG&A expenses increased by 6.8% compared to 2010. The majority of this increase occurred in our US business as a result of further investment in sales people to support the *DermaPet* products and in line with our growth strategy.

**Research and Development Expenses**

Research and development expenditure was up by 11.9% from £4.7 million to £5.2 million. This increased expenditure supports our product development programme, further details of which are given on pages 14 to 17.

**Underlying Operating Profit**

	2011 £'000	2010 £'000	Change %
European Pharmaceuticals	<b>22,506</b>	21,412	5.1
US Pharmaceuticals	<b>4,838</b>	1,311	269.0
Services	<b>13,087</b>	13,103	(0.1)
Research and development	<b>(5,221)</b>	(4,666)	(11.9)
Central costs	<b>(3,387)</b>	(2,970)	(14.0)
Underlying operating profit	<b>31,823</b>	28,190	12.9

Underlying operating profit of European Pharmaceuticals rose by 5.1% during the year (6.5% at constant currency). The main driver of this increase was the performance of our own branded pharmaceuticals although the improvement in profit was constrained by a lower diets gross margin and reduced contract manufacturing revenues.

Our US business's underlying operating profit grew by 269.0% with the acquisition of *DermaPet* making a major contribution to this result. The strong increase in *Vetoryl* revenues also contributed.

Within Services, *NVS* achieved an increase in operating profit with operating margin being maintained. This was offset by a significant reduction in the profitability of the Laboratories with the reduction in revenue having an amplified impact on the bottom line.

**Underlying Net Finance Expense**

Underlying net finance expense was £1.8 million compared to £2.1 million in 2010. The net finance expense benefited from a £1.0 million gain on foreign exchange (2010: £0.2 million gain), although this was partially offset by interest on additional borrowings to fund the acquisitions of *DermaPet* and *Genitrix*.

**Underlying Profit Before Taxation**

Underlying profit before taxation rose from £26.1 million to £30.1 million, an increase of 15.4%.

**Non-underlying Items**

Non-underlying items in the year comprised amortisation of intangibles acquired as a result of business combinations together with one off costs related to the acquisitions of *DermaPet* and *Genitrix* including the resulting refinancing. 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 24.3% (2010: 25.4%). This included a credit of £0.4 million (2010: £0.1 million) in respect of prior years. Going forward, the Group will benefit from the planned reductions in the UK corporation tax rate.

## Earnings Per Share and Dividend

Underlying earnings per share increased by 16.4% from 29.50 pence to 34.33 pence, the fifth successive year of double digit growth.

The Board is proposing a final dividend of 8.40 pence per share which, when added to the interim dividend of 3.70 pence per share already paid, gives a total dividend for the year of 12.10 pence compared to 10.50 pence in 2010.

The total dividend is covered 2.6 times (2010: 2.6 times) by profit after taxation after adding back amortisation of acquired intangibles.

## Cash Flow

	2011 £'000	2010 £'000
EBITDA	33,615	29,283
Share-based payments charge	830	817
Changes in working capital	(9,071)	(3,438)
Cash generated from operations	25,374	26,662
Net interest	(2,629)	(2,208)
Taxes paid	(5,034)	(6,124)
Capital expenditure	(4,090)	(2,721)
Proceeds of asset sales	2	—
Repayment of borrowings	(4,329)	(5,671)
Free cash flow	9,294	9,938
Acquisitions	(33,047)	—
Net new borrowings	29,556	—
Issue of share capital	541	589
Dividends	(7,221)	(6,195)
Foreign currency effects	(129)	353
<b>Net cash flow</b>	<b>(1,006)</b>	4,685

The cash conversion rate in 2011 was 82.8% (2010: 100.8%) with the reduction due principally to additional payment terms being offered to certain large *NVS* customers.

## Financial Position at the Year End

	2011 £'000	2010 £'000
<b>Non-current assets</b>		
Intangible assets	125,098	80,371
Property, plant and equipment	7,721	7,673
	<b>132,819</b>	88,044
Working capital	32,494	21,486
Deferred and contingent consideration	(14,055)	—
Current tax liability	(5,391)	(4,105)
Deferred tax liability	(13,443)	(12,496)
Net borrowings	(34,091)	(6,701)
<b>Net assets</b>	<b>98,333</b>	86,228

Intangible assets and net borrowings increased compared to last year due to the two acquisitions made during the period. The balance sheet remains strong with net borrowings having reduced by £15.6 million since 31 December 2010. The net borrowings at 30 June 2011 of £34.1 million are comfortably affordable, representing only 0.98 times underlying EBITDA.

Of the increase in working capital, £1.5 million was as a result of the acquisitions. Inventory levels were increased in the first half of the financial year to ensure continuity of supply during the transfer of our diet range to a new manufacturer. This was partially reversed in the second half. The remaining increase was due to higher revenues and additional payment terms that *NVS* offered to a major customer.

## Bank Facilities

Details of the Group's bank facilities are shown in note 20 to the financial statements. These facilities were refinanced during the year in order to fund the acquisition of *DermaPet*. The new facilities run through to 2014. There was substantial headroom on all covenants during the year.

## 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 42 to 49.

The table on the following page 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 said risks:

**Directors' Report: Our Performance**  
**Financial Review** continued

The main potential risk areas identified by the Board are as follows:

Strategy	Risk
<p><b>To sustain growth from our core businesses</b></p>	<p>The failure of a major customer or supplier</p>
	<p>Failure to meet regulatory requirements under which we operate thereby disrupting our operations and our product manufacture pipeline/loss of key products due to regulatory changes</p>
	<p>Loss of key personnel</p>
	<p>Fuel shortage/logistics failure</p>
<p><b>To continue to develop a high growth, cash generative specialist veterinary products business</b></p>	<p>Competitor product launched against one of our leading brands</p>
	<p>Revenue from recently launched new products failing to meet expectations</p>
	<p>Failure of clinical trials</p>



### How we mitigate the risk

- The business units monitor the financial status of both key customers and suppliers and maintain regular contact with them (including face to face meetings)
  - Where it becomes evident that issues in relation to manufacturing/supply may arise alternative suppliers are identified and detailed plans drafted. Where a manufacturing transfer is required stock is built up in order to avoid/mitigate an out of stock situation
  - In respect of manufacturing, a "second sourcing" project for key materials has been established and maintained
  - All contracts with suppliers and 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
- 
- 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
  - A Performance and Development Review process is in the early stages of implementation
- 
- Standard operating procedures have been drafted in respect of fuel emergencies/failures of the courier company (the latter in respect of the Laboratories only) 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
- 
- 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 teams which are consistently trained to a high standard
  - 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

**Directors' Report: Our Governance**  
**Board of Directors**



**Ian Page**  
**Chief Executive**

Aged 50, 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 47, 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**  
**Managing Director of Dechra Veterinary Products Europe**

Aged 51, 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@*. 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 67, 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).



**Neil Warner, BA, FCA, MCT\*†•**

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

Aged 58, 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 26 May 2011.



**Bryan Morton, BSc, MBA\*†•**

**Non-Executive Director, Chairman of the Remuneration Committee**

Aged 55, Bryan joined the Board in January 2010. Bryan has extensive experience in the pharmaceutical industry, largely with Merck & Co. Inc. and Bristol Myers Squibb where he has held positions of responsibility within marketing, sales, business development and general management. He was previously the CEO of Zeneus Pharma, which he founded in 2003 and which was subsequently sold in late 2005. Bryan is the President and Chief Executive Officer of EUSA Pharma, a specialist pharmaceutical company, which he founded in 2006. He is Chairman of the stem cell company ReNeuron, as well as Chairman of the medical device business Aircraft Medical Ltd and sits on the Global Advisory Board at Pilgrim Software Inc, which is focused on the life sciences sector.



**Dr Christopher Richards, MA, D.Phil\*†•**

**Non-Executive Director**

Aged 57, Chris joined the Group as a Non-Executive Director in December 2010. He is Chairman of Arysta LifeScience Corporation, having 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. In February 2011 Chris was appointed Non-Executive Director of Bio Products Laboratory Ltd, a company which manufactures a wide range of plasma products.



**Zoe Goulding, LLB (Hons)**

**Company Secretary and Solicitor**

Aged 37, 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

**Directors' Report: Our Governance**  
**Senior Management**



**Dr Susan Longhofer, DVM, MS, DipACVIM**

**Product Development and Regulatory Affairs Director**

Aged 53, Susan joined the Group in June 2005. She has 22 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.



**Barbara Johnson, Chartered MCIPD**

**Group HR Director**

Aged 50, 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**

Aged 32, Paul was appointed as Group Financial Controller of Dechra and Finance Director of NationWide Laboratories and Cambridge Specialist Laboratory Services 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.



**Martin Riley**

**Managing Director, National Veterinary Services**

Aged 47, 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.



**Mike Eldred, BA, MBA**

**President, US Operations, Dechra Veterinary Products**

Aged 41, Mike was appointed in November 2004 to head up the Group's sales and marketing drive in the United States. He has over 17 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.



**Mike Annice, BSc (Hons), MRPharmS**

**Managing Director, Dales Pharmaceuticals**

Aged 51, 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.



**Dr Peter Graham, BVMS, PhD, CertVR, DipECVCP, MRCVS**

**Managing Director of NationWide Laboratories and Cambridge Specialist Laboratory Services**

Aged 43, Peter was appointed Managing Director of NationWide Laboratories and Cambridge Specialist Laboratory Services in 2003. Peter graduated from the University of Glasgow Vet School in 1989, where he remained as Small Animal House Physician and Research Scholar until 1995. During this period he was awarded the RCVS Certificate in Veterinary Radiology and a PhD on the Epidemiology and Management of Canine Diabetes Mellitus. He contributed to the initial commercialisation of biochemistry and endocrinology lab services at the University of Glasgow. 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.

## Directors' Report: Our Governance

### Corporate Governance

The Board recognises its accountability to Shareholders and is committed to maintaining high standards of corporate governance. In the opinion of the Directors, the Company has complied with the UK Corporate Governance Code (the "Code") throughout the period under review except in respect of the composition of its Audit Committee. For the majority of the year the Audit Committee consisted of three independent Non-Executive Directors, in line with the Code. However, from the date of Malcolm Diamond's retirement until the appointment of Dr Chris Richards (a period of less than four weeks) the Audit Committee consisted of only two independent Non-Executive Directors. It should be noted that the Audit Committee did not meet during this period.

The Board has discussed the various changes which have been recommended by the Code, in particular the recommendations relating to the annual re-election of directors and the externally facilitated evaluation of the Board every three years. As the Company is no longer a constituent member of the FTSE 350 it does not need to comply with these two new recommendations; however, the Board will always seek to comply with the Code where it determines that to do so would be beneficial to the Company and its Stakeholders. In relation to the annual re-election of all directors, the Board concluded that given the changes to the board composition over the past 18 months (i.e. one Non-Executive retiring and the appointment of two new Non-Executives) it would not be conducive to the effective management of the development of the Company's strategy to comply with the recommendation for annual re-election this year. The Board will however keep the matter under review during the forthcoming year. In respect of the recommendation for an externally facilitated evaluation of the Board every three years, the Board has reassessed its current evaluation process and a number of changes have been made. However, a decision has been taken that an external evaluation will not be carried out this year; this decision will be reviewed annually. Further detail in respect of these decisions is provided below.

### Application of the Principles of the UK Corporate Governance Code

The Code sets out the main and supporting principles of good governance for companies. The following report details how the Company has applied the principles of the Code to its activities.

## Directors

### The Board

The Board is collectively responsible for the success of the Company and provides entrepreneurial leadership within an embedded framework which allows for the ongoing assessment and management of risk. There is a formal schedule of matters reserved to the Board, which covers areas such as strategy, corporate structure, financial reporting and controls, approval of material contracts, internal controls, corporate governance and delegation of authority. The schedule was reviewed during the 2010/2011 financial year and updated in line with best practice guidelines. In addition the Board focused on the existing financial controls imposed on executives to ensure that these were at the requisite levels so as not to hinder day-to-day administration of the business but to ensure adequate internal control. The Board has also begun a review of the delegated authorities within the businesses, and as a matter of best practice the schedule of matters and delegated authorities will be reviewed on an annual basis.

At least one week prior to all board meetings an agenda and supporting documentation is circulated to the Board. Every meeting agenda comprises reports from the following individuals:

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

In addition, twice a year the Board receives detailed health, safety and environmental reviews encompassing the UK, European and US businesses 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 in each of the business units. Other ad hoc material relating to specific projects, legal and regulatory matters are included as necessary. The reports ensure that the Board is informed and 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 in previous years, the senior management team were invited to attend board meetings on a quarterly basis and in the intervening period if required, enabling the Board to explore specific issues in detail when required.

In January the Board carried out a review of the Group strategy. As a result of the review an annual strategic agenda has been drawn up and approved by the Board. This agenda will ensure that key strategic objectives are discussed on a regular basis. A list of operational areas including topics such as business development, marketing, product development, human resources and IT are now diarised as agenda items for strategic consideration at future board meetings. As a result, members of the senior management team will be individually invited to attend specific board meetings rather than as a group (with the number of group meetings reduced accordingly). This will provide 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 specific business units/ area of responsibility.

Ten times a year the Chief Executive and Group Finance Director attend the board meetings of the businesses which make up the four operating segments (excluding the US). The meetings are chaired by the Chief Executive and allow him and the Group Finance Director the opportunity to obtain detailed information into the progress being made and any issues being faced by the individual business units. In relation to the US, the Chief Executive ensures that he meets with the US management team at least three times a year and obtains regular updates from the DVP US President, Mike Eldred. Key operational information obtained from these meetings is fed back to the Board.

The Chief Executive along with the Product Development and Regulatory Affairs Director also chair 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 Board has 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 Board is scheduled to meet 11 times per annum with additional meetings called if necessary, including two meetings where a review of the full year and half-year results are prioritised. No additional meetings were required during the 2010/2011 financial year.

Attendance at the board and nomination committee meetings during the year to 30 June 2011 was as follows (details of attendance at the audit and remuneration committee meetings is provided on pages 50 and 53 respectively):

Name	Board (11 Meetings)	Nomination (3 Meetings)
Michael Redmond	11	3
Malcolm Diamond	4/4†	3
Bryan Morton	11	3
Dr Chris Richards	7/7*	0/0*
Neil Warner	11	3
Ian Page	11	n/a
Simon Evans	11	n/a
Ed Torr	11	n/a

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

\* Actual attendance/maximum number of meetings Director could attend based on date of appointment.

† Actual attendance/maximum number of meetings Director could attend based on date of retirement.

## Directors' Report: Our Governance

### Corporate Governance continued

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

### Chairman and Chief Executive

There is a clear division of responsibilities between the Chairman, Michael Redmond, and the Chief Executive, Ian Page. The Chairman is responsible for the leadership and effective working of the Board and ensures that each Director, in particular the Non-Executive Directors, is able to make an effective contribution to the Board. The Chief Executive is responsible for the management of the Company, implementing policies and proposing strategy.

During the financial year under review, the Chief Executive was appointed Non-Executive Chairman of Sanford DeLand Asset Management Limited ("Sanford"). The Board considered whether this would impact materially on his current time commitment as Chief Executive of the Group 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.

The Chairman, at the time of his appointment, did meet and continues to meet the independence criteria set out in the Code. Having held a non-executive position within Dechra for over nine years the Chairman is to present himself for re-election at the forthcoming Annual General Meeting. The Nomination Committee (excluding the Chairman) has reviewed his appointment in detail and considers that he continues to lead the Board effectively, at all times maintaining his independence and providing an invaluable contribution and insight to the Board gained from his extensive experience within the pharmaceutical sector. The Nomination Committee also reviewed the Chairman's current time commitments particularly in light of his position as Chairman of Abcam plc. After consideration the Nomination Committee determined that this would not adversely impact his time commitment as Chairman of the Group and that he would continue to fulfil his role to the highest standards.

### Board Balance and Independence

The Board consists of the Non-Executive Chairman, three other Non-Executive Directors and three Executive Directors (including the Chief Executive). Taking into account the provisions of the Code, the Board has determined that during the year under review each of the Non-Executive Directors remained independent and free from any relationships which could compromise their independent judgement.

Malcolm Diamond retired from his position as Non-Executive Director at the 2010 Annual General Meeting. On Malcolm Diamond's retirement, Neil Warner was appointed Senior Independent Director. He is 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 Nomination Committee recognises the importance of ensuring the refreshment of the Board and of ensuring that the Non-Executive Directors provide the right mix of skill, expertise and experience to assist the Executive Directors in achieving the Group strategy. As reported in the 2010 Annual Report an independent recruitment consultant was retained to aid the Nomination Committee in the appointment of an additional Non-Executive Director. As a result, on 1 December 2010, Dr Chris Richards was appointed to the Board and as a member of the Remuneration, Audit and Nomination Committees.

At the commencement of the recruitment process an objective role description was agreed by the Nomination Committee which encompassed the requirements of the Board and the Group not only in terms of the skill and knowledge required but also diversity. The recruitment consultant was specifically requested to seek both female and male candidates who satisfied the role description; unfortunately no female candidates were highlighted. It should be noted that, although neither of the two Non-Executive Directors appointed during the past 18 months had previous PLC experience, they were appointed for their wide ranging international experience and knowledge which is deemed a key attribute required to progress the Group strategy.



In response to the recent communication from Lord Davies in respect of women on boards it should be noted that the Board will continue to recruit in line with the requirements of the Board and ensure that the correct mix of skills and experience is maintained. Although there are currently no female board members, 37.0% of the senior management team, 15.8% of the subsidiary executive boards and 41.7% of the overall workforce are female. In terms of recruitment for the next Non-Executive Director replacement (due to retirement) female candidates will be specifically requested.

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.

The details of the Board of Directors are shown on pages 38 and 39.

### Conflicts of Interest

At the 2008 Annual General Meeting the Shareholders approved a resolution to amend the current Articles of Association so as to enable the Directors to authorise any actual or potential conflict of interest which could arise in line with the Companies Act 2006. 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, and 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 think this to be appropriate. During the financial year under review no actual conflicts have arisen.

### 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 Michael Redmond (Chairman), Malcolm Diamond (resigned 5 November 2010), Bryan Morton, Dr Chris Richards (appointed 1 December 2010) and Neil Warner. The Chairman would not chair the committee meeting if it was dealing with the appointment of a successor to the Chairman. 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. However two additional meetings have been held during the financial year in view of the appointment of Dr Chris Richards.

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 and a copy is available on the Company website at [www.dechra.com](http://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 also notified of any subsequent changes. Of the Executive Directors only Ian Page holds a Non-Executive Directorship (as detailed earlier in this report). The letters of appointment of the Non-Executive Directors will continue to be 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.

## Directors' Report: Our Governance

### Corporate Governance continued

#### Information and Professional Development

The Directors are supplied in a timely manner with all relevant documentation and financial information to assist them in the discharge of their duties. This includes information on the Company's operational and financial performance. At least one board meeting per year is held at one of the Group's operational sites to enable the Directors to update and maintain their knowledge and familiarity with the Group's operations. Board meetings were held at the DVP UK offices in Shrewsbury in January and at *Dales*, Skipton in June, where the Board had an opportunity to be shown around the respective facilities and meet with employees.

Any newly appointed Directors are provided with comprehensive documentation aimed at providing information in relation to the remit and obligations of the role, current areas under consideration for the Board and the latest broker reports. New Directors are also offered the opportunity to visit the various business units in order to allow them the opportunity to meet with the executive teams and to be shown around the operations. On an ongoing basis Directors are encouraged to keep up to date on all matters relevant to the Group and attend briefings and seminars as appropriate. The Company Secretary also provides briefings where necessary for the Directors that cover a number of legal and regulatory changes and developments relevant to the Directors' areas of responsibility. The Company Secretary and Chairman are aware of the requirement to regularly review and agree with each Director their training needs. It is currently considered that the briefings provided at board meetings satisfy such 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 and 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. The Company Secretary is responsible to the Chairman for ensuring that all board and committee meetings are properly conducted and Directors receive all appropriate information prior to meetings to enable them to make an effective contribution. Both the appointment and removal of the Company Secretary is a matter for the Board as a whole.

#### Performance Evaluation

In previous years the board evaluation process had been based on a general discussion by the Board covering a number of topics detailed to them by the Company Secretary. However, this process has been reviewed in light of the current sentiment in relation to performance evaluation and the need for more detailed disclosure. As a result the Chairman and Company Secretary developed a discussion document covering areas such as (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. The discussion document was approved by the Board and the Chairman scheduled interviews 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 results of the internal evaluation were presented to the Board at a meeting in August 2011. Overall, it was concluded that the Board and its committees were effective and it was agreed that the recent changes in respect of the Non-Executive Directors had been successful in aligning the board skill set with the business and its strategy going forward. However a number of recommendations were made in respect of the running of the Board and it was agreed the Chairman and Company Secretary would oversee their implementation during the 2011/2012 financial year.

#### Re-election

On appointment, Directors are required to seek election at the first Annual General Meeting following appointment. One-third of the Board are required to retire from office by rotation at the Annual General Meeting subject to all Directors having submitted themselves for re-election every three years. At the forthcoming Annual General Meeting Dr Chris Richards, who was appointed to the Board on 1 December 2010, will offer himself for election; both Ian Page and Neil Warner will retire by rotation in accordance with the Articles of Association and will seek re-election. In addition, Mike Redmond who has served as a Non-Executive Director for more than nine years will also offer himself for re-election. The Board has rigorously reviewed the performance of Ian Page, Neil Warner and Michael Redmond and strongly supports their re-election and recommends that the Shareholders vote in favour of these resolutions.

#### Remuneration

Details of Directors' remuneration are set out in the Directors' Remuneration Report at pages 53 to 62. This report details the Company's compliance with the Code's requirements with regard to remuneration matters.

## Accountability and Audit 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 73 to 75.

### 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 37. The principal risks that may affect the Group's future performance are set out on pages 36 and 37.

During the year being reported, trading has continued to be robust with an improvement in profitability being achieved. On the acquisition of *DermaPet* in October 2010 the Group refinanced its bank facilities which now comprise:

- a term loan of £36 million repayable over four years
- a revolving credit facility of £28 million committed until 30 September 2014
- an overdraft facility of £10 million renewable on 31 August 2012

The Group also had cash balances of £30.5 million at 30 June 2011. The overdraft facility is expected to be renewed on the renewal date although it is not normally used for the Group's day-to-day cash requirements.

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 both 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 team on an ongoing basis. This framework has been in place throughout this 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 2011. Further detail in respect of the risks and uncertainties faced by the Group and the mitigating action being taken can be found on pages 36 and 37.

The Group's key systems of control include:

- **Management Structure**

The Group is organised into four 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.

## Directors' Report: Our Governance

### Corporate Governance continued

- **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 maintain 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 holds a bi-annual internal conference at which a full technical update, tailored specifically to the Group's commercial needs, is presented by the Auditor. During the 2010/2011 financial year a conference was held in November and April, both of which concentrated on the upcoming IFRSs and the implications of the new Senior Accounting Officer legislation.

Business unit management certify 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 and performance against which 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 must be followed 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 recently introduced Bribery Act 2010 all current policies have been reviewed in order to ensure compliance with the legislation.

## Audit Committee and Auditor

Information relating to the Audit Committee is set out in the Audit Committee Report on pages 50 to 52. 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 and the systems of internal control and risk management.

The Auditor is engaged to express an opinion on 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.

## 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. These meetings are in addition to the annual and half-year results presentations and 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 the press. The Company also organises site visits on a periodic basis.

Feedback is collated by the Company's brokers after both the annual and half-year results and 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 movements 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 is continually updating 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 at that meeting. 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 and will be made available as soon as practicable after the meeting on the Company website at [www.dechra.com](http://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.

**Directors' Report: Our Governance**  
**Audit Committee Report**

**Neil Warner**, Chairman of the Audit Committee, reports on the Audit Committee's activities during 2010/11



Member	Independent	Meetings eligible to attend	Meetings attended
Neil Warner	Yes	3	3
Malcolm Diamond (retired 5 November 2010)	Yes	1	1
Bryan Morton	Yes	3	3
Dr Chris Richards (appointed 1 December 2010)	Yes	2	2

Secretary  
 Zoe Goulding

**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](http://www.dechra.com). The Committee's terms of reference are reviewed on an annual basis and during the 2010/2011 financial year this took place at the February meeting. Following this review the terms of reference were updated in line with best practice guidelines. 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 36 and 37 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, monitors the effectiveness of the audit process and sets the policy for non-audit work;
- to make recommendations to the Board on the requirement for an internal audit function.

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. Malcolm Diamond retired in November 2010 and the Committee are pleased to welcome Dr Chris Richards as its most recent member. 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 latterly Finance Director of Chloride Group PLC (a position he held from 1997 until end December 2010) and as Chairman of the Audit Committee of Vectura Group plc (to which he was appointed in February 2011).

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 attend as and when appropriate. The Committee has discussions at least once a year with the Auditor without management being present.

## Activities during 2010/2011

The Committee met three times during the year, timed to coincide with the financial reporting timetable of the Company. 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
September 2010	<ul style="list-style-type: none"> <li>● Auditor's report on the 2009/2010 financial results</li> <li>● Draft preliminary statement</li> <li>● Draft Annual Report</li> <li>● External audit effectiveness</li> <li>● Audit Committee effectiveness review</li> <li>● Auditor independence confirmation</li> <li>● Level of non-audit fees</li> <li>● Going concern confirmation</li> <li>● Internal controls</li> <li>● Proposed final dividend</li> <li>● Auditor representation letter</li> </ul>
February 2011	<ul style="list-style-type: none"> <li>● Auditor's report on the half-year results</li> <li>● Draft half-year report and announcement</li> <li>● Terms of reference</li> <li>● Interim dividend</li> <li>● Going concern confirmation</li> <li>● Senior Accounting Officer requirement</li> <li>● Auditor representation letter</li> <li>● Level of non-audit fees</li> <li>● Requirement for an internal audit function</li> </ul>
May 2011	<ul style="list-style-type: none"> <li>● Audit strategy for the year ended 30 June 2011 (including timetable, scope and fees)</li> <li>● Auditor independence</li> <li>● Group business risks</li> <li>● Company expectations of audit</li> </ul>

## Internal Control and Internal Audit Function

The Board retains overall responsibility for establishing the systems of internal control and monitoring their ongoing effectiveness and also for the identification and management of risk. The Committee monitors and reviews the effectiveness of the Group's internal control activities and further detail in respect of the internal controls are provided within the Corporate Governance Section (on pages 47 and 48). The requirement for an internal audit function was discussed at the committee meeting in February. Given the current systems of internal controls discussed within the Corporate Governance Report and taking into consideration the present size of the Group, the Committee currently believes that an internal audit function is not required.

## 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 May 2011 and the Committee remains satisfied of the Auditor's independence.

## **Directors' Report: Our Governance** **Audit Committee Report** continued

During the year the Committee appointed a new Group Audit Engagement Director, Graham Neale, who succeeded Simon Purkess. This appointment was carried out in line with the ethical standards of the Audit Practices Board which recommend that this appointment is rotated every five years. The Committee is pleased to report that the handover to the new Group Audit Engagement Director went smoothly and the transition was properly and effectively managed.

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. 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.

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, these primarily included acquisition due diligence and certain taxation services. This is consistent with the ethical standard recommended by the Accounting Practices Board.

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 approved by the Committee.

### **Effectiveness Review**

During the year, the Committee reviewed its own effectiveness through a process led by the Committee Chairman. 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 Warner**

Chairman – Audit Committee

6 September 2011



## Directors' Remuneration Report

**Bryan Morton**, Chairman of the Remuneration Committee, reports on the Remuneration Committee's activities during 2010/11



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 60.

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 2011 Annual General Meeting for the approval of the Shareholders.

### Membership

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

Member	Independent	Meetings eligible to attend	Meetings attended
Bryan Morton	Yes	3	3
Michael Redmond	Yes	3	3
Malcolm Diamond (retired 5 November 2010)	Yes	1	1
Neil Warner	Yes	3	3
Dr Chris Richards (appointed 1 December 2010)	Yes	2	2

Secretary  
Zoe Goulding

The Chief Executive attended all 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 guidelines. During the 2010/2011 financial year this review took place at the February meeting. Copies can be obtained via the Company website at [www.dechra.com](http://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.

**Directors' Report: Our Governance****Directors' Remuneration Report** continued

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 three times during the year and members' attendance at the meetings can be found on page 53. The table below sets out a number of the matters which were discussed (and where necessary approved) at the three meetings:

Date	Subject Matter
September 2010	<ul style="list-style-type: none"><li>• Approval of Director bonuses</li><li>• Approval of satisfaction of performance condition in respect of the LTIP</li><li>• Review of Committee effectiveness</li><li>• Discussion of the LTIP awards to be granted to Executives and Senior Management</li></ul>
February 2011	<ul style="list-style-type: none"><li>• Discussion regarding Directors' remuneration</li><li>• Discussion of share option allocation</li><li>• Approval of share option exercise and achievement of target</li><li>• Review of terms of reference</li></ul>
June 2011	<ul style="list-style-type: none"><li>• Confirmation of Executive Directors' salary</li><li>• Review and confirmation of executive bonus arrangements for 2011/2012</li><li>• Chief Executive benchmarking review</li></ul>

**Advisers**

During the year the Committee received advice on the remuneration of senior executives from the Chief Executive and the Group HR Director. Advice was also received from the Company Secretary, Hewitt New Bridge Street and DLA Piper (UK) LLP in relation to the operation of the Company's share-based incentive plans. Hewitt New Bridge Street has no other connection with the Company. DLA Piper (UK) LLP are the Company's lawyers and were involved in the updating of the Company Share Scheme rules which were approved by the Shareholders at the 2010 Annual General Meeting.

**Effectiveness Review**

During the year, the Committee reviewed its effectiveness through a process led by the Committee Chairman. The Committee considered it had the skills and experience necessary to perform its responsibilities, which was strengthened by the appointment of an additional Non-Executive Director. These findings were advised to the Board.

## 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 take 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 3%. 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 fees by 2% for the 2011/2012 financial year. The annual fee level for 2011/12 is therefore:

Office	2011/12 Fee £'000
Chairman	84
Non-Executive Director	38
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;
- 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; and
- are consistent with corporate governance best practice guidelines so long as the Committee believes that compliance with such guidelines is in the best interest of Shareholders.

During the period under review the HR Director, assisted by a steering group consisting of representatives from around the Group, developed a Performance and Development Review ("PDR") process. The PDR will measure an individual's performance in three distinct categories: Accountabilities, Values and Objectives. In respect of the Executive Directors the Accountability element will provide for measurement of their ability to drive the Group strategy forward, thereby ensuring that an element of future remuneration is aligned to strategy. The PDR process has been approved by the Board and is currently being rolled out over a six month period to a pilot group which includes the Executive Directors and senior managers. It is intended that Objectives for the pilot group will be agreed by the end of September 2011 and Accountabilities by the end of December 2011. The pilot PDR will then take place from March to May 2012 and a full 12 month PDR cycle will commence in July 2012. This will result in the 2013/2014 remuneration increases for those groups being dependent on the results of the review.

The Committee has a policy of reviewing Executive remuneration every two years. The last review took place during spring/summer 2010; following the review the Committee concluded that the value of the Executive Directors' remuneration packages remained below median. However, taking into account market sentiment and also pay increases across the Group a 3% pay increase was awarded for 2010/2011 and a number of changes were made to the bonus arrangements. The bonus arrangements remain unchanged for 2011/2012 and details of the parameters of the scheme are provided in the table on the next page along with the key elements of the Executive Directors' remuneration for 2011/2012.

**Directors' Report: Our Governance**  
**Directors' Remuneration Report** continued

<b>Policy</b>	<b>2011/2012</b>
<b>Base Salary</b>	
The Committee always considers	
(i) remuneration packages payable to employees employed in comparable companies; and	Taking into account the market sentiment at the time and the pay increases across the Group, the Committee agreed that base salaries be increased by 2% with effect from 1 July 2011 to
(ii) pay increases within the Group more generally	Ian Page — £375,064 Simon Evans — £235,755 Ed Torr — £225,039
<b>Pensions</b>	
The Company operates a Group Stakeholder personal pension scheme which has been effective since 1 July 2005	The Company will contribute 14% of salary on behalf of the Executive Directors. During the year HMRC reduced the annual allowance to £50,000 per annum. As a result, it was agreed by the Committee that in the case of Ian Page any employers' contribution above this limit will be paid in lieu
<b>Benefits in Kind</b>	
Provided on a market competitive bases	The Company provides the use of a fully expensed car, medical cover and life assurance scheme
<b>Annual Bonus</b>	
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 determined at the beginning of the financial year	Due to the continuing challenging budget and market conditions the executive bonus scheme for 2011/12 financial year will be as in 2010/2011  Therefore, a payment of 10% of salary is triggered on achievement of 95% of budget and payment of 90% of salary on achievement of 110% of budget. In between these two parameters the achievement of budget triggers a payment equivalent to 50% of base salary as indicated in the graph below



A further 10% of salary can be earned based on the achievement of personal objectives

## 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 normally permitted to accept external appointments with the approval of the Board.

The only Executive Director to hold an external appointment is Ian Page. He was appointed Non-Executive Chairman of Sanford DeLand Asset Management Limited, an asset management company, on 7 October 2010. He has agreed to waive his fee for the first year of appointment.

## Long Term Incentive Arrangements and Share Schemes

### Long Term Incentive Plan ("LTIP")

Awards under the LTIP have been made since 2008. The Committee considers that 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 Company's performance in terms of relative Total Shareholder Return ("TSR").

The LTIP allows the Executive Directors and selected senior executives of the Company to receive a conditional award of performance shares worth up to 150% of base salary (200% of salary in exceptional circumstances). Options granted to the Executive Directors on 22 December 2010 were granted to a value equivalent to 100% of their base salary. The annual award is generally granted in September/October; however, by reason of a close period imposed due to the acquisitions of *DermaPet* Inc. and *Genitrix* Limited the grant was delayed until December.

Vesting of performance shares will normally occur provided that:

- (a) 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 2011 are:
  - (1) an 'underpin' condition based on the Company's adjusted diluted earnings per share performance — no awards will vest if the Company's adjusted 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%

### Executive Incentive Plan ("EIP")

Prior to the adoption of the LTIP in November 2008, the Company operated an Executive Incentive Plan. No further options can be granted under the EIP; details of the remaining options exercised during the financial year pursuant to the EIP and the attaching performance conditions can be found on page 61 of this report.

### 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 to participate in the Approved Share Option Scheme or the Unapproved Share Option Scheme by reason of their participation in the LTIP and EIP. As reported in the 2010 Annual Report each of these share option schemes expired in autumn 2010. A resolution in respect of the renewal of the three schemes was approved by the Shareholders at the 2010 Annual General Meeting and initial awards under the schemes were made during the financial year.

**Directors' Report: Our Governance**  
**Directors' Remuneration Report** continued

**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. Throughout the 2010/2011 financial year the Company has been a constituent member of the FTSE Small Cap Index; for this reason it is considered that the TSR performance of the FTSE Small Cap Index be represented in this report.



**Directors' Shareholdings**

The beneficial interests of the Directors in office and their families in the share capital of Dechra Pharmaceuticals PLC as at 30 June 2011 were as follows:

Name	<b>Ordinary Shares No. 2011</b>	Ordinary Shares No. 2010
Michael Redmond	<b>56,475</b>	56,475
Ian Page	<b>726,282</b>	707,731
Simon Evans	<b>882,689</b>	860,537
Ed Torr	<b>411,381</b>	401,489
Bryan Morton	—	—
Dr Chris Richards	<b>4,000</b>	—
Neil Warner	<b>4,191</b>	2,691

There have been no changes in the holdings of the Directors between 30 June and 6 September 2011.

## 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 (please see table below):

Name	Ordinary Shares No.	Ordinary Shares £'000*	Salary £'000
Ian Page	726,282	3,564	368
Simon Evans	882,689	4,332	231
Ed Torr	411,381	2,019	221

\* Calculated using the share price as at 30 June 2011.

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 annual 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
Michael Redmond	56,475	27	338.0
Bryan Morton	—	—	—
Dr Chris Richards	4,000	20	53.1
Neil Warner	4,191	21	51.4

\* Calculated using the share price as at 30 June 2011.

## 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	Company
Michael 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	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' remuneration.

**Directors' Report: Our Governance**  
**Directors' Remuneration Report** continued

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

Name	Salary & Fees	Bonus	Benefits
Michael 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	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	<b>Total 2011 £'000</b>	Total 2010 £'000
<b>Executive Directors</b>					
Ian Page	368	221	30	<b>619</b>	543
Simon Evans	231	139	26	<b>396</b>	349
Ed Torr	221	132	15	<b>368</b>	323
<b>Non-Executive Directors</b>					
Michael Redmond	82	—	—	<b>82</b>	80
Malcolm Diamond (retired 5 November 2010)	15	—	—	<b>15</b>	39
Bryan Morton	40	—	—	<b>40</b>	17
Dr Chris Richards (appointed 1 December 2010)	22	—	—	<b>22</b>	—
Neil Warner	40	—	—	<b>40</b>	39
	1,019	492	71	<b>1,582</b>	1,390

Executive bonuses for the year ended 30 June 2011 (as reflected in the table above) were determined as follows:

- Profit 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. Actual performance reflected 100% 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 total bonus payments worth 60% of salary.



## Executive Incentive Plan

Awards made under the Executive Incentive Plan are as follows:

	Award date	Number of shares at 30 June 2010	Granted during the year	Exercised during the year	Number of shares at 30 June 2011	Performance period	Share price at date of award pence	Share price at date of exercise pence
Ian Page	2008	37,975	—	(37,975)	—	2007–2010	386	509.50
Simon Evans	2008	22,152	—	(22,152)	—	2007–2010	386	509.50
Ed Torr	2008	20,253	—	(20,253)	—	2007–2010	386	509.50

Awards under the EIP vest based on Dechra's TSR performance over a three year performance period starting on 1 July prior to date of grant relative to the FTSE Small Cap Total Return Index with 30% of awards vesting for median performance rising to 100% for upper quartile performance. No awards vest unless the Committee is satisfied with the underlying financial performance of the Company over the performance period. Following the approval of the Long Term Incentive Plan at the 2008 Annual General Meeting no further options have been granted under the EIP.

During the financial year awards granted in 2008 became exercisable. Independent verification by Hewitt New Bridge Street showed that the Company's TSR performance for the three year period to 30 June 2010 was in the top quartile of the FTSE Small Cap Total Return Index. The Committee also determined that the underlying financial performance of the Company over the performance period had been satisfactory. The full award was therefore exercisable. There are now no further awards under the EIP to be exercised.

## Long Term Incentive Plan

Awards made under the Long Term Incentive Plan are as follows:

	Award date	Number of shares at 30 June 2010	Granted during the year	Exercised during the year	Number of shares at 30 June 2011	Performance period	Share price at date of award pence
Ian Page	19 Nov 2008	92,593	—	—	<b>92,593</b>	2008–2011	391.75
	24 Sept 2009	86,861	—	—	<b>86,861</b>	2009–2012	404.10
	22 Dec 2010	—	72,241	—	<b>72,241</b>	2010–2013	514.00
		179,454	72,241	—	<b>251,695</b>		
Simon Evans	19 Nov 2008	58,201	—	—	<b>58,201</b>	2008–2011	391.75
	24 Sept 2009	54,599	—	—	<b>54,599</b>	2009–2012	404.10
	22 Dec 2010	—	45,409	—	<b>45,409</b>	2010–2013	514.00
		112,800	45,409	—	<b>158,209</b>		
Ed Torr	19 Nov 2008	55,556	—	—	<b>55,556</b>	2008–2011	391.75
	24 Sept 2009	52,117	—	—	<b>52,117</b>	2009–2012	404.10
	22 Dec 2010	—	43,344	—	<b>43,344</b>	2010–2013	514.00
		107,673	43,344	—	<b>151,017</b>		

The performance conditions attaching to the Long Term Incentive Plan are explained on page 57.

**Directors' Report: Our Governance**  
**Directors' Remuneration Report** continued

Independent verification has also recently been sought from Hewitt New Bridge Street in respect of the satisfaction of the performance targets for awards which will vest in November 2011. The 'underpin' condition (the Company's adjusted earnings per share has grown by at least RPI plus 3% per annum over the performance period) has been met and it has been confirmed that the Company's TSR performance for the three year period to 30 June 2011 falls between the median and upper quartile of the FTSE Small Cap Total Return Index. The awards therefore will partially vest on their maturity date.

The aggregate gain made by the Executive Directors on share options exercised during 2011 was £408,459 (2010: £461,663).

**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 2010 number	Exercised number	Granted number	Lapsed number	At 30 June 2011 number
Ian Page	13 Oct 2008	387	343	Dec 2013	4,883	—	—	—	<b>4,883</b>
Simon Evans	13 Oct 2008	387	343	Dec 2013	4,883	—	—	—	<b>4,883</b>
Ed Torr	13 Oct 2008	387	343	Dec 2013	1,119	—	—	—	<b>1,119</b>
	12 Oct 2009	445	332	Dec 2014	1,640	—	—	—	<b>1,640</b>
					12,525	—	—	—	<b>12,525</b>

**Share Price**

The middle market price for the Company's shares on 30 June 2011 was 490.75p and the range of prices during the year was 382.0p to 551.0p.

**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 2011 £'000	Contributions 2010 £'000
Ian Page	50	<b>51</b>	50
Simon Evans	47	<b>32</b>	31
Ed Torr	51	<b>31</b>	30
		<b>114</b>	111

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



**Bryan Morton**

Chairman – Remuneration Committee  
 6 September 2011

## Social, Ethical and Environmental Responsibilities

A responsible approach to our stakeholders and the wider community is seen by the Board to be fundamental to the Group. The conduct of the Group towards social, environmental, ethical and health and safety issues is recognised to have an impact on our reputation and 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 to create and maintain long term value for Shareholders. 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 and has its own terms of reference, which were approved by the Board in July 2010. Copies can be obtained from the Company Secretary or via the Company's website at [www.dechra.com](http://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 has met twice this year.

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.

The Committee had 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, each business unit has discretion to allocate funds to local community groups, employee nominated charities and/or animal welfare charities. In addition, the Group will donate annually to three charities, being an animal welfare charity, an environmental charity and an employee nominated charity. We will provide details in respect of these donations in next year's report.

Below is a selection of what has taken place during the 2010/2011 financial year:

### Animal Welfare

- NVS has teamed up with The Blue Cross; one of the UK's leading animal charities, collecting bags of clothing and bric-a-brac from participating veterinary practices throughout the UK and delivering them to The Blue Cross shops. During the year, this joint venture has raised £100,000 worth of income towards helping sick and homeless animals in the care of The Blue Cross.
- As in previous years, the 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 donated over £11,000 worth of medical supplies to the Worldwide Veterinary Service, a UK registered charity committed to improving the treatment and welfare of all animal species throughout the world. In addition DVP 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 *Sedator*, *Alvegesic* and *Atipam*.

## Directors' Report: Our Governance

### Social, Ethical and Environmental Responsibilities continued



#### Race for Life

Tracy Beech, Melanie Vanhuls, Rachel Horton, Carol Allen, Claire Owen and Helen Hall all took part in the 'Race for Life' event on 22 May at the agricultural showground in Shrewsbury. They completed the 5k course generating sponsorship of £515 and with DVP UK matching sponsorship, making a grand total of £1,031.



#### Donna Louise Trust Foundation

Danny Roberts of NVS handing over a cheque for £540 to the 'Donna Louise Trust Foundation', the donation was raised from the sale of damaged goods to NVS employees.

### Environment

- As in previous years Dechra has maintained its investment in the Corporate Membership Scheme for the Staffordshire Wildlife Trust (the "Trust") donating £2,000. The continued support provided by the Company has assisted the Trust to continue with their education, conservation and community projects throughout Staffordshire. As in the previous year head office employees and representatives from NVS assisted the local community in a litter pick at Parrot's Drumble, an area of ancient woodland situated adjacent to the NVS warehouse in Talke Pits.
- DVP EU has agreed 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 to a Danish charity. This year they donated DKK3,000 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, and in addition DVP EU has provided sponsorship to the University of Munich, totalling €3,000.
- NWL has continued its links with local schools by offering a number of work experience placements to four children from local schools and two veterinary students.

### Health and Safety Policy

The Group attaches great importance to the health and safety of its employees and the public. The management are 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.

The Group commenced reporting Lost Time Accident Frequency Rates (“LTAFR”) as a non-financial key performance indicator during the 2008/2009 reporting year. The LTAFR is a calculation of all injuries that would be statutorily reportable under 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. Over the course of the last twelve months the number of accidents has increased from 14 to 15. None of these accidents have resulted in a work related fatality or disability. It is hoped to reduce the number of accidents during the 2011/2012 financial year. More detail in relation to this and other non-financial key performance indicators can be found on pages 30 and 31.

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 then 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 2010 this committee introduced an online driver risk assessment for all company car and commercial vehicle drivers. The results of the assessment enabled the Company to identify any drivers at risk and to provide further training to those drivers. The drivers identified as requiring driver development training have now undertaken the training and this has been positively received. All new company car and commercial vehicle drivers as part of their induction must complete the online driver risk assessment. All company car and commercial drivers will be reassessed every three years. The Transport Risk Committee has reviewed the company car policy during the year with the aim of reducing its impact on the environment, resulting in a reduction in the selection of cars to be made available to employees and reducing the overall CO<sub>2</sub> limit for all cars to 160 CO<sub>2</sub>/km. This committee has met four 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. The Group commenced reporting labour turnover as a non-financial KPI during the 2008/2009 reporting year, and this is measured using the standard formula:

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

The Group has established a target of no more than 15% Moving Annual Turnover; during the 2010/2011 financial year we achieved 19.03% (2010: 15.88%). The main cause of this increase is attributed to the restructure of the warehouse operation within NVS where numbers of hourly paid employees have dropped from 387 to 349 over the financial year, a reduction of 38 posts.

In October 2010 a steering group was established to review how the management of both individual and team performance is undertaken throughout the Group, with a view to establishing a process that adds value to the business. The steering group was chaired by the Group HR Director and consisted of representatives from around the Group. They considered ways of improving performance, developing individuals and teams and managing behaviour that is consistent across the Group and providing support to managers.

## Directors' Report: Our Governance

### Social, Ethical and Environmental Responsibilities continued

The group determined the underlying principles and standards of behaviour that are needed to achieve and promote a high performance culture and as a result have developed a performance and development review (PDR) process that incorporates:

- a set of behavioural standards that are linked to Group core values;
- a mechanism to annually review team members; and
- a route for team member development.

As a result, the Dechra Values were launched in June 2011 throughout the business, a summary of which can be found on the inside front cover and further information can be obtained via the Company's website at [www.dechra.com](http://www.dechra.com). Further detail in relation to the PDR process can be found in the Remuneration Report on page 55.

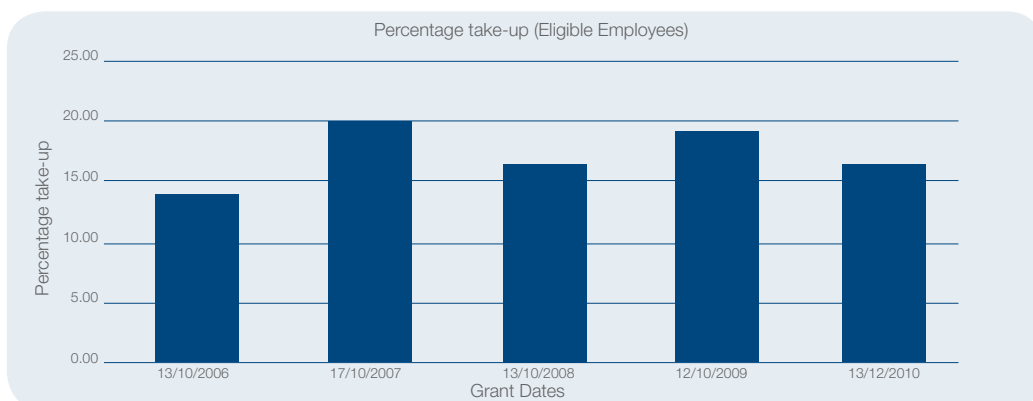
The Board fully endorses these values and believe that they encapsulate Dechra's business ethics and set standards that all employees wish to achieve and ultimately exceed.

*Dales* is registered with 'Investors in People' and takes on a number of apprentices each year via 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. During the year one further apprentice has been employed and is currently studying for the NVQ Level 2 Business and Administration. In addition the following qualifications have been obtained during the current financial year; NVQ Level 2 in Performing Manufacturing Operations and Team Leading, Diploma in Operations Management and A Level Chemistry.

At *MVS*, one employee has completed NVQ Level 3 in Team Leading and one employee has gained CIM Professional Diploma in Marketing, whilst two employees are studying for NVQ Level 2 in Customer Services and three for Level 2 in Business and Administration.

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 has encouraged employees to share in the growth of the Company through eligibility to participate in the SAYE Scheme. The SAYE Scheme is offered to UK employees only, with 17.38% of the UK workforce participating in the 2010 grant (2009: 18.83%); the decrease in participants this year can be explained by HMRC's decision to reduce the three year scheme interest rate to nil. The SAYE Scheme has been established for over ten years and has a consistently high take up rate. The graph below shows the percentage of employees who have taken up the SAYE Scheme over the last five years.



## 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).

Written confirmation of adherence to the Code and notification of any conflicts, by all relevant employees, takes place annually.

A whistle-blowing policy is also in place whereby employees may report, in confidence, any suspected wrongdoings within the business where they feel unable to discuss any such issue directly with local management. Details of the whistle-blowing policy are contained within the Dechra Pharmaceuticals PLC Employment Handbook and on the Company website at [www.dechra.com](http://www.dechra.com).

## 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. During 2010 the Committee confirmed the Group KPIs as energy consumption, fuel, travel and waste. The Committee members were tasked with collating data relating to the KPIs internally for a 12 month period with a view to gaining an understanding of whether or not these were the correct KPIs for the Group. The Committee has yet to meet to discuss these in detail and any decision will be reported in next year's report. In terms of fuel, waste and travel we can report the following changes:

### Fuel

In respect of fuel, the number of company car vehicles with a CO<sub>2</sub> limit of more than 160 CO<sub>2</sub>/km has been reduced. *MVS* fleet policy ensures that CO<sub>2</sub> emissions are taken into consideration when procuring new delivery vehicles in order to ensure that low emission vehicles are sourced. Generally, delivery vehicles are replaced every three years via leasing agreements and alternative fuel vehicles are always considered on the replacement anniversary. During the year the HGV fleet speed limiters have been fixed to 53 miles per hour which will assist in reducing the amount of fuel consumed by the fleet and should also assist in reducing carbon emissions. The average miles per gallon as at the end of June 2011 and June 2010 were as follows:

	<b>2011</b>	2010
HGV Fleet	<b>9.60</b>	9.32
Transit	<b>32.57</b>	32.07

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.

**Directors' Report: Our Governance**

**Social, Ethical and Environmental Responsibilities** continued

**Travel**

In respect of travel, use of the video-conference facilities is recommended as priority over travel. During the previous financial year, video-conference facilities were installed in *NVS*, Denmark and *Dales* with a satellite function at Shrewsbury. In the US video-conference facilities are provided by a third party. Whilst the Committee appreciates that face to face meetings are beneficial it is hoped that the use of the video-conference facilities can reduce the number of flights.

**Waste Recycling**

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 25) 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 regularly monitored 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. 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)	
	2011	2010	2011	2010	2011	2010	2011	2010
Dales	<b>8.7</b>	10.4	<b>30.6</b>	28.6	<b>15.8</b>	15.6	—	—
NVS	—	—	<b>276.1</b>	280.3	<b>18.4</b>	16.5	<b>0.03</b>	0.5
DVP EU	—	—	<b>18.5</b>	15.5*	<b>9.1</b>	9.0*†	—	—

\* Data collated on a calendar year basis.

† Plastic and metal.

DVP EU also monitors:

- Annual energy consumption: In 2010 energy consumption totalled 1,748 MWh (compared to 1,519 MWh in 2009). The increase is primarily due to an increase in energy consumption processes in manufacturing.
- Water: In 2010 water usage totalled 2,372 m<sup>3</sup> (compared to 2,382 m<sup>3</sup> in 2009). Although there has been a slight decrease in usage compared to the previous year, over a five year period the usage has remained relatively stable.

During 2008/2009 *Dales* implemented and embedded the 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 the lean manufacturing strategy 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 19 to 16 days. Currently 20 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.



## 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 4 to 37 and include:

- 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 2011 are shown in the Consolidated Income Statement on page 76 and Consolidated Statement of Financial Position on page 78. The Directors recommend the payment of a final dividend of 8.40 pence per share which, if approved by Shareholders, will be paid on 25 November 2011 to Shareholders registered at 11 November 2011. The date the shares will become ex-dividend is 9 November 2011. An interim dividend of 3.70 pence per share was paid on 7 April 2011, making a total dividend for the year of 12.10 pence (2010: 10.50 pence). The total dividend payment is £8,039,000 (2010: £6,953,000).

### 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 14 to 17. The expense on this activity for the year ended 30 June 2011 was £5,221,000 (2010: £4,666,000) and a further £1,025,000 (2010: £955,000) 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 2011, the Group had an average of 60 days (2010: 71 days) purchases outstanding in creditors. The Company has an average of nil days (2010: nil days) purchases outstanding in creditors.

**Directors' Report: Our Governance**  
**Other Disclosures** continued

**Acquisitions**

The acquisitions during the year under review are as follows:

Date of Acquisition	Detail	Consideration
October 2010	<i>DermaPet</i> Inc. Florida based business which develops and markets a range of dermatological preparations for the US and overseas companion animal markets	The maximum cash consideration for the acquisition is as follows: <ul style="list-style-type: none"> <li>• US\$43.2 million paid on completion;</li> <li>• Payments of US\$1.0 million due on the second and fourth anniversaries of the completion date;</li> <li>• US\$15.0 million payable between the second and sixth anniversaries of completion if <i>DermaPet</i> achieves revenues in excess of US\$15.0 million in any rolling 12 month period commencing on the first anniversary of completion;</li> <li>• If revenues on the same criteria exceed US\$20.0 million, a further US\$5.0 million will become due</li> </ul>
December 2010	<i>Genitrix</i> Limited Privately owned veterinary company with a range of equine and companion animal products complementary to Dechra's	Initial cash consideration of £5.4 million. A further £0.8 million is payable on achievement of specific milestones

**Share Capital**

The issued share capital of the Company for the year is set out in note 22 to the Accounts on page 114. As at the end of the financial year, 66,449,659 fully paid ordinary shares were in issue which included 359,584 ordinary shares issued during the year in connection with the exercise of options under the Company's share option schemes.

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

At the Annual General Meeting of the Company held on 5 November 2010, the Company was authorised to purchase up to 6,611,045 of its ordinary shares, representing 10% of the issued share capital of the Company as at 30 June 2010. 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 2010 Annual General Meeting and resolutions to renew these authorities will be proposed at the 2011 Annual General Meeting.

**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 2011		16 August 2011	
	Aggregate Voting Rights	Percentage	Aggregate Voting Rights	Percentage
Schroder Investment Management	15,580,099	23.45	15,260,483	22.97
Legal & General Investment Management	4,074,728	6.13	4,048,028	6.09
Aberdeen Asset Management	3,011,807	4.53	3,095,914	4.66
Invesco Perpetual	2,941,957	4.43	2,927,796	4.41
Rathbones	2,657,311	4.00	2,612,411	3.93
Newton Investment Management	2,236,125	3.37	2,442,947	3.68
Threadneedle Investments	2,226,900	3.35	2,258,900	3.40
BlackRock Investment Management	2,138,083	3.22	2,136,819	3.22

### Change of Control/Significant Agreements

As detailed in the Going Concern Statement on page 47 the Group has bank facilities with the Lloyds Banking Group (the "Bank"). Under the terms of these facilities the Bank 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 38 and 39. 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 42 to 49, 50 and 53.

During the financial year Malcolm Diamond retired from his position as Non-Executive Director. Dr Chris Richards was appointed to the Board as a Non-Executive Director on 1 December 2010, under the Company's Articles of Association he will offer himself for re-election as a Director at the forthcoming Annual General Meeting.

Under the provisions of the UK Corporate Governance Code, Mike Redmond who has served as a Non-Executive Director for more than nine years will offer himself for re-election as a Director at the forthcoming Annual General Meeting.

The Company Articles of Association require one-third of the Board to retire by rotation at the Annual General Meeting and also if they have held office for more than 36 months since appointed or last elected. Therefore, Ian Page and Neil Warner retire by rotation and, being eligible, offer themselves for re-election. Further detail in respect of the proposed re-elections can be found in the enclosed Circular to Shareholders.

The interests of the Directors in the share capital of the Company are shown in the Remuneration Report on page 58. 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.

## **Directors' Report: Our Governance**

### **Other Disclosures** continued

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 73.

#### **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 £6,234 (2010: £6,695). Further details of donations made by the Group are given on pages 63 to 68.

#### **Political Donations and Expenditure**

No political donations were made during the year ended 30 June 2011. 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 2011 Annual General Meeting of the Company will be held at 1.00 pm on 4 November 2011 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  
6 September 2011

## 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  
6 September 2011



**Simon Evans**  
Group Finance Director  
6 September 2011

## Our Accounts

### 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 2011 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 73, 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](http://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 2011 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 42 to 49 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.

## 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 47, in relation to going concern;
- the part of the Corporate Governance Statement on pages 42 to 49 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 (Senior Statutory Auditor)**

For and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

One Snowhill

Snow Hill Queensway

Birmingham

B4 6GH

6 September 2011

## Our Accounts

### Consolidated Income Statement

For the year ended 30 June 2011

	Note	Underlying £'000	2011 Non- underlying items* (notes 4 & 5) £'000	Total £'000	Underlying £'000	2010 Non- underlying items* (note 5) £'000	Total £'000
<b>Revenue</b>	2	<b>389,237</b>	—	<b>389,237</b>	369,369	—	369,369
Cost of sales		<b>(300,876)</b>	—	<b>(300,876)</b>	(288,744)	—	(288,744)
<b>Gross profit</b>		<b>88,361</b>	—	<b>88,361</b>	80,625	—	80,625
Distribution costs		<b>(17,659)</b>	—	<b>(17,659)</b>	(16,242)	(300)	(16,542)
Administrative expenses		<b>(38,879)</b>	<b>(10,105)</b>	<b>(48,984)</b>	(36,193)	(8,024)	(44,217)
<b>Operating profit</b>	2	<b>31,823</b>	<b>(10,105)</b>	<b>21,718</b>	28,190	(8,324)	19,866
Finance income	3	<b>2,144</b>	—	<b>2,144</b>	1,632	—	1,632
Finance expense	4	<b>(3,898)</b>	<b>(1,450)</b>	<b>(5,348)</b>	(3,766)	—	(3,766)
<b>Profit before taxation</b>	6	<b>30,069</b>	<b>(11,555)</b>	<b>18,514</b>	26,056	(8,324)	17,732
Income tax expense	8	<b>(7,321)</b>	<b>2,941</b>	<b>(4,380)</b>	(6,619)	2,044	(4,575)
<b>Profit for the year attributable to owners of the parent</b>		<b>22,748</b>	<b>(8,614)</b>	<b>14,134</b>	19,437	(6,280)	13,157
Earnings per share							
<b>Basic</b>	10			<b>21.33p</b>			19.97p
<b>Diluted</b>	10			<b>21.26p</b>			19.89p
<b>Dividend per share (interim paid and final proposed for the year)</b>	9			<b>12.10p</b>			10.50p

\* 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 the unwinding of discounts on deferred and contingent consideration.



## Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Profit for the period	<b>14,134</b>	13,157
Other comprehensive income:		
Effective portion of changes in fair value of cash flow hedges	<b>(684)</b>	593
Cash flow hedges recycled to income statement	<b>670</b>	—
Foreign currency translation differences for foreign operations	<b>3,411</b>	(1,949)
Net loss on hedge of net investment in foreign operations	—	(1,300)
Recycled to income statement	—	(512)
Income tax relating to components of other comprehensive income	<b>(4)</b>	249
Total comprehensive income for the period attributable to owners of the parent	<b>17,527</b>	10,238

**Our Accounts**

**Consolidated Statement of Financial Position**

At 30 June 2011

	Note	2011 £'000	2010 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	11	<b>125,098</b>	80,371
Property, plant and equipment	12	<b>7,721</b>	7,673
<b>Total non-current assets</b>		<b>132,819</b>	88,044
<b>Current assets</b>			
Inventories	15	<b>40,760</b>	34,819
Trade and other receivables	16	<b>66,293</b>	51,162
Cash and cash equivalents	17	<b>30,496</b>	31,502
<b>Total current assets</b>		<b>137,549</b>	117,483
<b>Total assets</b>		<b>270,368</b>	205,527
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	20	<b>(8,502)</b>	(20,441)
Trade and other payables	18	<b>(74,559)</b>	(64,495)
Deferred and contingent consideration	27	<b>(500)</b>	—
Current tax liabilities	19	<b>(5,391)</b>	(4,105)
<b>Total current liabilities</b>		<b>(88,952)</b>	(89,041)
<b>Non-current liabilities</b>			
Borrowings	20	<b>(56,085)</b>	(17,762)
Deferred and contingent consideration	27	<b>(13,555)</b>	—
Deferred tax liabilities	14	<b>(13,443)</b>	(12,496)
<b>Total non-current liabilities</b>		<b>(83,083)</b>	(30,258)
<b>Total liabilities</b>		<b>(172,035)</b>	(119,299)
<b>Net assets</b>		<b>98,333</b>	86,228
<b>EQUITY</b>			
Issued share capital	22	<b>664</b>	661
Share premium account		<b>63,559</b>	63,021
Hedging reserve		<b>(294)</b>	(276)
Foreign currency translation reserve		<b>4,751</b>	1,340
Merger reserve		<b>1,770</b>	1,770
Retained earnings		<b>27,883</b>	19,712
<b>Total equity attributable to equity holders of the parent</b>		<b>98,333</b>	86,228

The financial statements were approved by the Board of Directors on 6 September 2011 and are signed on its behalf by:



**Ian Page**  
Director



**Simon Evans**  
Director

Company number: 3369634

## Consolidated Statement of Changes in Shareholders' Equity

For the year ended 30 June 2011

Year ended 30 June 2010	Issued share capital £'000	Share premium account £'000	Attributable to owners of the parent				Retained earnings £'000	Total £'000
			Hedging reserve £'000	Foreign currency translation reserve £'000	Merger reserve £'000			
At 1 July 2009	656	62,437	(703)	4,686	1,770	11,840	80,686	
Profit for the period	—	—	—	—	—	13,157	13,157	
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	427	—	—	—	427	
Foreign currency translation differences for foreign operations, net of tax	—	—	—	(2,041)	—	—	(2,041)	
Net loss on hedge of net investment in foreign operations, net of tax	—	—	—	(936)	—	—	(936)	
Cash flow hedges recycled to income statement, net of tax	—	—	—	(369)	—	—	(369)	
Total comprehensive income	—	—	427	(3,346)	—	13,157	10,238	
Transactions with owners								
Dividends paid	—	—	—	—	—	(6,195)	(6,195)	
Share-based payments	—	—	—	—	—	910	910	
Shares issued	5	584	—	—	—	—	589	
Total contributions by and distributions to owners	5	584	—	—	—	(5,285)	(4,696)	
<b>At 30 June 2010</b>	<b>661</b>	<b>63,021</b>	<b>(276)</b>	<b>1,340</b>	<b>1,770</b>	<b>19,712</b>	<b>86,228</b>	
Year ended 30 June 2011								
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)	
<b>At 30 June 2011</b>	<b>664</b>	<b>63,559</b>	<b>(294)</b>	<b>4,751</b>	<b>1,770</b>	<b>27,883</b>	<b>98,333</b>	

### 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.

## Our Accounts

### Consolidated Statement of Cash Flows

For the year ended 30 June 2011

	Note	2011 £'000	2010 £'000
<b>Cash flows from operating activities</b>			
Profit for the period		14,134	13,157
Adjustments for:			
Depreciation		1,535	1,509
Amortisation and impairment		10,362	7,908
Loss on sale of property, plant and equipment		1	—
Finance income		(2,144)	(1,632)
Finance expense		5,348	3,766
Equity-settled share-based payment expense		830	817
Income tax expense		4,380	4,575
<b>Operating cash flow before changes in working capital</b>		<b>34,446</b>	<b>30,100</b>
Increase in inventories		(4,814)	(3,126)
Increase in trade and other receivables		(12,408)	(3,833)
Increase in trade and other payables		8,150	3,521
<b>Cash generated from operating activities before interest and taxation</b>		<b>25,374</b>	<b>26,662</b>
Interest paid		(3,586)	(3,214)
Income taxes paid		(5,034)	(6,124)
<b>Net cash inflow from operating activities</b>		<b>16,754</b>	<b>17,324</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		2	—
Interest received		957	1,006
Acquisition of subsidiaries		(33,047)	—
Purchase of property, plant and equipment		(1,280)	(1,243)
Capitalised development expenditure		(1,025)	(955)
Purchase of other intangible non-current assets		(1,785)	(523)
<b>Net cash outflow from investing activities</b>		<b>(36,178)</b>	<b>(1,715)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of share capital		541	589
New borrowings		68,000	—
Expenses of raising new borrowings		(944)	—
Repayment of borrowings		(41,829)	(5,671)
Resetting of foreign currency borrowings		320	456
Dividends paid		(7,221)	(6,195)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>18,867</b>	<b>(10,821)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(557)</b>	<b>4,788</b>
Cash and cash equivalents at start of period		31,502	26,817
Exchange differences on cash and cash equivalents		(449)	(103)
<b>Cash and cash equivalents at end of period</b>		<b>30,496</b>	<b>31,502</b>
<b>Reconciliation of net cash flow to movement in net borrowings</b>			
Net (decrease)/increase in cash and cash equivalents		(557)	4,788
Repayment of borrowings		41,829	5,671
New borrowings		(68,000)	—
Expenses of raising new borrowings		944	—
Exchange differences on cash and cash equivalents		(449)	(103)
Retranslation of foreign borrowings		254	(1,230)
Other non-cash changes		(1,411)	(300)
<b>Movement in net borrowings in the period</b>		<b>(27,390)</b>	<b>8,826</b>
Net borrowings at start of period		(6,701)	(15,527)
<b>Net borrowings at end of period</b>	24	<b>(34,091)</b>	<b>(6,701)</b>

## 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 2011 comprise the Company and its subsidiaries.

#### (a) Statement of Compliance

The 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 124 to 132.

#### (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 37. 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.

## Our Accounts

### Notes to the Consolidated Financial Statements continued

#### 1. Accounting Policies continued

##### 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.

##### 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 21, 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.

##### Contingent Liability

Please refer to note 28.

##### Adoption of New and Revised Standards

The following standards and interpretations are applicable to the Group and have been adopted in 2011 as they are mandatory for the year ended 30 June 2011.

- Amendments to IFRS 8 'Operating segments' — removes the requirement to present segment information for total assets unless regularly reported to the chief operating decision-maker. Since the changes are presentational only there has been no impact on profit or net assets.
- Amendment to IAS 17 'Leases' — allows a lease of land with an indefinite economic life to be classified as a finance lease when relevant criteria are met. This amendment has not had a material impact on the Group's 2011 consolidated financial statements.
- Amendments to IAS 32 'Classification of Rights Issues' — requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights options or warrants pro-rata to all of its existing owners of the same class of its own non-derivative equity instruments. This amendment has not had a material impact on the Group's 2011 consolidated financial statements.
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' — deals with how entities should measure equity instruments issued in a debt for equity swap. This amendment has not had a material impact on the Group's 2011 consolidated financial statements.

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 2011, have been adopted in the year. None of these amendments have had a material impact on the Group's financial statements.

## 1. Accounting Policies continued

### New Standards and Interpretations not yet Adopted

The following standard and interpretation has been published, endorsed by the EU, and is available for early adoption, but has not yet been applied by the Group in these financial statements.

- IAS 24 'Related Party Disclosures (revised 2009)' — makes changes to the definition of a related party. Application of this standard is required for periods starting on or after 1 January 2011. The amendments are not expected to have a material impact and will become mandatory for the Group's 2012 consolidated financial statements.

### (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.

### (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.

## Our Accounts

### Notes to the Consolidated Financial Statements continued

#### 1. Accounting Policies continued

##### (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 determine 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.

## Our Accounts

### Notes to the Consolidated Financial Statements continued

#### 1. Accounting Policies continued

Borrowing costs directly attributable to the acquisition, construction, or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

#### (f) Property, Plant and Equipment Owned Assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (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.

## 1. Accounting Policies continued

Contingent consideration is measured at fair value.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is allocated to cash-generating units and is tested annually for impairment.

### Research and Development Costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense is incurred.

The Group is also engaged in development activity with a view to bringing new pharmaceutical products to market. 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                | Period of product rights       |
| • customer relationships        | 10 years                       |

## Our Accounts

### Notes to the Consolidated Financial Statements continued

#### 1. Accounting Policies continued

##### (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.

##### (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.

## 1. Accounting Policies continued

### (l) Employee Benefits Pensions

The Company operates a Group stakeholder personal pension scheme for certain employees. Obligations for contributions are recognised as an expense in the income statement as incurred.

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.

### 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 and an Executive 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 and the Executive 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.

## Our Accounts

### 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.

## 1. Accounting Policies continued

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.

### (q) Earnings per Share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary Shareholders of the Company by the weighted average number of ordinary shares in issue during the period. Diluted EPS is determined by adjusting the profit attributable to ordinary Shareholders and the weighted average number of ordinary shares in issue, for the effects of all potential dilutive ordinary shares, which comprise share options granted to employees.

The Group has also chosen to present an alternative EPS measure, with profit adjusted for non-underlying items. A reconciliation of this alternative measure to the statutory measure required by 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, NationWide Laboratories and Cambridge Specialist Laboratory Services. The segment services UK veterinary practices in both the companion animal and livestock sectors.

The European Pharmaceuticals segment comprises Dechra Veterinary Products EU and *Dales* Pharmaceuticals. *Dales* manufactures the vast majority of our own branded licensed pharmaceutical products, which are marketed through DVP EU. The 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.

**Our Accounts**

**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:

	2011 £'000	2010 £'000
<b>Revenue by segment</b>		
Services — total	<b>296,258</b>	285,670
— intersegment	<b>(190)</b>	(195)
European Pharmaceuticals — total	<b>89,287</b>	84,637
— intersegment	<b>(12,225)</b>	(11,377)
US Pharmaceuticals	<b>16,107</b>	10,634
	<b>389,237</b>	369,369
<b>Operating profit/(loss) by segment</b>		
Services	<b>13,087</b>	13,103
European Pharmaceuticals	<b>22,506</b>	21,412
US Pharmaceuticals	<b>4,838</b>	1,311
Pharmaceuticals research and development	<b>(5,221)</b>	(4,666)
<b>Segment operating profit</b>	<b>35,210</b>	31,160
Corporate and other unallocated costs	<b>(3,387)</b>	(2,970)
<b>Underlying operating profit</b>	<b>31,823</b>	28,190
Amortisation of acquired intangibles	<b>(8,938)</b>	(6,580)
Rationalisation costs	<b>(474)</b>	(1,096)
Acquisition costs	<b>(693)</b>	—
Impairment of intangible assets	<b>—</b>	(230)
Payment to acquire technology for research and development programme	<b>—</b>	(418)
<b>Total operating profit</b>	<b>21,718</b>	19,866
Finance income	<b>2,144</b>	1,632
Finance expense	<b>(5,348)</b>	(3,766)
<b>Profit before taxation</b>	<b>18,514</b>	17,732
<b>Total liabilities by segment</b>		
Services	<b>(58,337)</b>	(51,386)
European Pharmaceuticals	<b>(14,465)</b>	(11,954)
US Pharmaceuticals	<b>(13,837)</b>	(557)
Pharmaceuticals research and development	<b>(654)</b>	(567)
<b>Segment liabilities</b>	<b>(87,293)</b>	(64,464)
Corporate loans and revolving credit facility	<b>(63,814)</b>	(37,156)
Corporate accruals and other payables	<b>(2,094)</b>	(1,078)
Current and deferred tax liabilities	<b>(18,834)</b>	(16,601)
	<b>(172,035)</b>	(119,299)
<b>Additions to intangible non-current assets by segment</b>		
Services	<b>158</b>	136
European Pharmaceuticals	<b>8,244</b>	497
US Pharmaceuticals	<b>40,056</b>	—
Pharmaceuticals research and development	<b>1,212</b>	845
	<b>49,670</b>	1,478



## 2. Operating Segments continued

	2011 £'000	2010 £'000
<b>Additions to Property, Plant and Equipment by segment</b>		
Services	280	142
European Pharmaceuticals	874	813
US Pharmaceuticals	63	288
Pharmaceuticals research and development	86	—
	<b>1,303</b>	1,243
<b>Depreciation and amortisation by segment</b>		
Services	438	448
European Pharmaceuticals	9,091	8,251
US Pharmaceuticals	1,961	182
Pharmaceuticals research and development	407	306
	<b>11,897</b>	9,187

### Geographical Information

The following table shows revenue based on the geographical location of customers:

	2011 Revenue £'000	2011 Non-current assets £'000	2010 Revenue £'000	2010 Non-current assets £'000
UK	305,737	29,156	305,992	20,981
Rest of Europe	56,452	66,954	49,451	67,033
USA	16,107	36,709	10,634	30
Rest of World	10,941	—	3,292	—
	<b>389,237</b>	<b>132,819</b>	369,369	88,044

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

## 3. Finance Income

	2011 £'000	2010 £'000
<b>Recognised in profit or loss</b>		
Finance income arising from:		
— Cash and cash equivalents	1,113	894
— Loans and receivables	32	112
— Foreign exchange gains	999	626
	<b>2,144</b>	1,632

**Our Accounts**

**Notes to the Consolidated Financial Statements** continued

**4. Finance Expense**

	2011 £'000	2010 £'000
<b>Underlying</b>		
Finance expense arising from:		
— Financial liabilities at amortised cost	3,898	3,365
— Derivatives at fair value through profit or loss	—	401
Underlying finance expense	<b>3,898</b>	3,766
<b>Non-underlying</b>		
Loss on extinguishment of debt	1,256	—
Unwinding of discounts on deferred and contingent consideration	194	—
Non-underlying finance expense	<b>1,450</b>	—
Total finance expense	<b>5,348</b>	3,766

**5. Non-underlying Items**

Non-underlying items comprise:

	2011 £'000	2010 £'000
Amortisation of intangible assets acquired as a result of business combinations	8,938	6,580
Rationalisation costs	474	1,096
Expenses of the acquisition of <i>DermaPet</i> Inc.	585	—
Expenses of the acquisition of <i>Genitrix</i> Limited	108	—
Payment to acquire technology for research and development programme	—	418
Impairment of intangible asset	—	230
	<b>10,105</b>	8,324

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

Rationalisation costs in 2010 relate to the closure of our pharmaceutical warehouse in Shrewsbury and transfer of all pre-wholesale logistics to our facility in Uldum, Denmark.

## 6. Profit Before Taxation

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

	2011 £'000	2010 £'000
Cost of inventories recognised as an expense	298,105	285,609
Impairment of inventories included in above figure	558	292
Depreciation of property, plant and equipment		
— owned assets	1,288	1,202
— under finance leases	247	307
Amortisation of intangible assets	10,362	7,678
Impairment of patent rights	—	230
Loss on disposal of property, plant and equipment	1	—
Impairment of receivables	573	280
Operating lease rentals payable	3,905	3,150
Research and development expenditure as incurred	5,221	4,666
Auditor's remuneration	1,087	409
Analysis of total fees paid to the Auditor:		
Audit of these financial statements	42	51
Audit of financial statements of subsidiaries pursuant to legislation	185	212
Other services pursuant to legislation	51	14
Other services relating to taxation	237	132
Other services relating to acquisitions	572	—
	<b>1,087</b>	<b>409</b>

## 7. Employees

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

	2011 Number	2010 Number
Manufacturing	221	238
Distribution	409	432
Administration	375	351
	<b>1,005</b>	<b>1,021</b>

The costs incurred in respect of these employees were:

	2011 £'000	2010 £'000
Wages and salaries	27,712	26,137
Social security costs	3,036	2,792
Other pension costs	1,552	1,340
Share-based payments charge (see note 23)	948	910
	<b>33,248</b>	<b>31,179</b>

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

	2011 £'000	2010 £'000
Wages and salaries (including benefits in kind)	2,569	2,136
Social security costs	337	273
Other pension costs	190	182
Share-based payments charge	586	537
Non-Executive Directors' fees	200	175
	<b>3,882</b>	<b>3,303</b>

## Our Accounts

### Notes to the Consolidated Financial Statements continued

#### 7. Employees continued

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 53 to 62.

The Group operates a stakeholder personal pension scheme for certain employees and contributed between 4% and 14% of pensionable salaries. The Group also participates in State run pension arrangements for certain employees in Dechra Veterinary Products SAS and Dechra Veterinary Products BV. Total pension contributions amounted to £1,552,000 (2010: £1,340,000).

#### 8. Income Tax Expense

	2011 £'000	2010 £'000
Current tax		
— UK corporation tax	4,551	3,678
— overseas tax at prevailing local rates	2,134	2,626
— adjustment in respect of prior years	(728)	(92)
Total current tax expense	5,957	6,212
Deferred tax		
— origination and reversal of temporary differences	(1,874)	(1,637)
— adjustment in respect of prior years	297	—
Total deferred tax expense	(1,577)	(1,637)
Total income tax expense in the income statement	4,380	4,575

The tax on the Group's profit before tax differs from the standard rate of UK corporation tax of 27.5% (2010: 28%). The differences are explained below:

	2011 £'000	2010 £'000
Profit before taxation	18,514	17,732
Tax at 27.5% (2010: 28%)	5,091	4,965
Effect of:		
— depreciation on assets not eligible for tax allowances	8	8
— disallowable expenses	450	48
— (over)/under-recovery of deferred tax on share-based payments	(28)	40
— research and development tax credits	(50)	(60)
— differences on overseas tax rates	(165)	(334)
— adjustments in respect of prior years	(431)	(92)
— non-taxable income	(495)	—
Total income tax expense	4,380	4,575

## 8. Income Tax Expense continued

### Tax Recognised Directly in Equity

	2011 £'000	2010 £'000
Deferred tax on effective portion of changes in fair value of cash flow hedges	(4)	(166)
Corporation tax on net loss on hedge of net investment in foreign operations	—	364
Deferred tax on currency translation	—	(92)
Corporation tax on amount recycled to income statement	—	143
<b>Tax recognised in statement of comprehensive income</b>	<b>(4)</b>	<b>249</b>
Corporation tax on equity settled transactions	<b>193</b>	313
Deferred tax on equity settled transactions	<b>166</b>	(220)
<b>Total tax recognised in equity</b>	<b>355</b>	<b>342</b>

The 2011 Budget on 23 March 2011 announced that the UK corporation tax rate will reduce to 23% over a period of four years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% (effective from 1 April 2011) was substantively enacted on 20 July 2010, and further reductions to 26% (effective from 1 April 2011) and 25% (effective from 1 April 2012) were substantively enacted on 29 March 2011 and 5 July 2011 respectively.

This will reduce the Company's future current tax charge accordingly and further reduce the deferred tax liability at 30 June 2011 (which has been calculated based on the rate of 26% substantively enacted at 30 June 2011) by £14,000.

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the Company's future current tax charge and reduce the Company's deferred tax liability accordingly.

**Our Accounts**

**Notes to the Consolidated Financial Statements** continued

**9. Dividends**

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Final dividend paid in respect of prior year but not recognised as a liability in that year: 7.20p per share (2010: 6.10p)	<b>4,764</b>	4,000
Interim dividend paid: 3.70p per share (2010: 3.30p)	<b>2,457</b>	2,195
Total dividend 10.90p per share (2010: 9.40p) recognised as distributions to equity holders in the period	<b>7,221</b>	6,195
Proposed final dividend for the year ended 30 June 2011: 8.40p per share (2010: 7.20p)	<b>5,582</b>	4,758
Total dividend paid and proposed for the year ended 30 June 2011: 12.10p per share (2010: 10.50p)	<b>8,039</b>	6,953

In accordance with IAS 10 'Events After the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2011 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 2012.

The proposed final dividend for the year ended 30 June 2010 is shown as a deduction from equity in the year ended 30 June 2011.

**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.

	<b>2011</b>	2010
	<b>Pence</b>	Pence
Basic earnings per share		
— Underlying*	<b>34.33</b>	29.50
— Basic	<b>21.33</b>	19.97
Diluted earnings per share		
— Underlying*	<b>34.22</b>	29.39
— Diluted	<b>21.26</b>	19.89

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

	<b>£'000</b>	£'000
Earnings for underlying basic and underlying diluted earnings per share	<b>22,748</b>	19,437
Earnings for basic and diluted earnings per share	<b>14,134</b>	13,157
	<b>No.</b>	No.
Weighted average number of ordinary shares for basic earnings per share	<b>66,253,477</b>	65,896,462
Impact of share options	<b>221,013</b>	241,438
Weighted average number of ordinary shares for diluted earnings per share	<b>66,474,490</b>	66,137,900

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

## 11. Intangible Assets

	Goodwill £'000	Software £'000	Develop- ment costs £'000	Patent rights £'000	Marketing authori- sations £'000	Acquired intangibles £'000	Total £'000
<b>Cost</b>							
At 1 July 2009	21,105	2,097	4,914	2,783	853	68,879	100,631
Additions	—	447	955	76	—	—	1,478
Disposals	—	(1)	—	—	—	—	(1)
Foreign exchange adjustments	(609)	(21)	(13)	—	—	(2,120)	(2,763)
At 30 June 2010 and 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
<b>At 30 June 2011</b>	<b>24,249</b>	<b>3,548</b>	<b>7,102</b>	<b>3,680</b>	<b>853</b>	<b>115,002</b>	<b>154,434</b>
<b>Amortisation</b>							
At 1 July 2009	—	497	623	111	—	9,835	11,066
Charge for the year	—	257	611	230	—	6,580	7,678
Impairment loss	—	—	—	230	—	—	230
At 30 June 2010 and 1 July 2010	—	754	1,234	571	—	16,415	18,974
Charge for the year	—	316	881	227	—	8,938	10,362
<b>At 30 June 2011</b>	<b>—</b>	<b>1,070</b>	<b>2,115</b>	<b>798</b>	<b>—</b>	<b>25,353</b>	<b>29,336</b>
<b>Net book value</b>							
<b>At 30 June 2011</b>	<b>24,249</b>	<b>2,478</b>	<b>4,987</b>	<b>2,882</b>	<b>853</b>	<b>89,649</b>	<b>125,098</b>
At 30 June 2010 and 1 July 2010	20,496	1,768	4,622	2,288	853	50,344	80,371
At 30 June 2009	21,105	1,600	4,291	2,672	853	59,044	89,565
						<b>2011</b>	2010
						<b>£'000</b>	£'000
Contracted capital commitments						<b>609</b>	948
Software assets in the course of construction included above						<b>857</b>	1,031

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.

**Our Accounts**

**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:

	Product Rights £'000	Customer Relationships £'000	Total £'000
<b>Cost</b>			
At 1 July 2009	68,502	377	68,879
Acquisitions through business combinations	—	—	—
Disposals	—	—	—
Foreign exchange adjustments	(2,120)	—	(2,120)
At 30 June 2010 and 1 July 2010	66,382	377	66,759
Acquisitions through business combinations	44,505	—	44,505
Disposals	—	—	—
Foreign exchange adjustments	3,738	—	3,738
<b>At 30 June 2011</b>	<b>114,625</b>	<b>377</b>	<b>115,002</b>
<b>Amortisation</b>			
At 1 July 2009	9,757	78	9,835
Charge for the year	6,542	38	6,580
At 30 June 2010 and 1 July 2010	16,299	116	16,415
Charge for the year	8,900	38	8,938
<b>At 30 June 2011</b>	<b>25,199</b>	<b>154</b>	<b>25,353</b>
<b>Net book value</b>			
<b>At 30 June 2011</b>	<b>89,426</b>	<b>223</b>	<b>89,649</b>
At 30 June 2010 and 1 July 2010	50,083	261	50,344
At 30 June 2009	58,745	299	59,044



## 11. Intangible Assets continued

The amortisation charge is recognised within administrative expenses in the income statement.

The principal assets within acquired intangibles are the product rights recognised on the acquisitions of Dechra Veterinary Products Holding A/S, *DermaPet* Inc. and *Genitrix* Limited. The carrying value of these assets at 30 June 2011 was £87.6 million with a remaining amortisation period of 6½ years, 14½ years and 9½ years respectively. The other significant assets within acquired intangibles are the product rights recognised on the acquisition of Pharmaderm Animal Health. The carrying value at 30 June 2011 was £1.9 million with a remaining amortisation period of 11 years.

During the course of 2010 management abandoned one of their equine development projects due to disappointing results from clinical trials. This resulted in management assessing the carrying value of acquired patent rights relating to the project. An impairment loss of £230,000 was recognised based on a value in use calculation and represents full impairment of the intangible. This impairment is classified within 'non-underlying items' in the income statement.

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 2011 was £1.7 million with a remaining amortisation period of 7½ years. The addition during the year comprised a payment for the rights to *Equidone* which was launched in the US during the year. The amortisation period is 10 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.

**Our Accounts**

**Notes to the Consolidated Financial Statements** continued

**12. Property, Plant and Equipment**

	Freehold land and buildings £'000	Short leasehold buildings £'000	Motor vehicles £'000	Plant and fixtures £'000	Total £'000
<b>Cost</b>					
At 1 July 2009	2,326	2,932	201	9,524	14,983
Additions	—	395	—	848	1,243
Disposals	—	—	—	—	—
Foreign exchange adjustments	(70)	—	—	(31)	(101)
At 30 June 2010 and 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
<b>At 30 June 2011</b>	<b>2,447</b>	<b>3,382</b>	<b>205</b>	<b>11,427</b>	<b>17,461</b>
<b>Depreciation</b>					
At 1 July 2009	196	1,019	201	5,527	6,943
Charge for the year	138	231	—	1,140	1,509
Disposals	—	—	—	—	—
At 30 June 2010 and 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)
<b>At 30 June 2011</b>	<b>471</b>	<b>1,456</b>	<b>201</b>	<b>7,612</b>	<b>9,740</b>
<b>Net book value</b>					
<b>At 30 June 2011</b>	<b>1,976</b>	<b>1,926</b>	<b>4</b>	<b>3,815</b>	<b>7,721</b>
At 30 June 2010 and 1 July 2010	1,922	2,077	—	3,674	7,673
At 30 June 2009	2,130	1,913	—	3,997	8,040
<b>Net book value of assets held under finance leases</b>					
<b>At 30 June 2011</b>	<b>—</b>	<b>40</b>	<b>—</b>	<b>568</b>	<b>608</b>
At 30 June 2010 and 1 July 2010	—	47	—	751	798
At 30 June 2009	—	55	—	970	1,025
				<b>2011</b>	2010
				<b>£'000</b>	£'000
Assets in the course of construction included above				—	104
Contracted capital commitments				<b>77</b>	382

### 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 for the three years ending 30 June 2014 extrapolated by applying a growth rate of 5% (2010: 5%) per annum up to year five and thereafter a growth rate of 0% (2010: 1%) 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 2011 for the following assets:

#### (a) Goodwill

	2011		2010	
	Carrying value	Pre-tax discount rate	Carrying value	Pre-tax discount rate
	£'000	%	£'000	%
Cash-generating unit				
Dechra Veterinary Products EU	19,085	9.87	15,644	10.95
Dechra Veterinary Products US	312	10.65	—	—
Laboratories	2,621	10.83	2,621	11.15
Dales	2,231	9.62	2,231	11.14

#### (b) Indefinite Life Assets

	2011		2010	
Asset	Carrying value	Pre-tax discount rate	Carrying value	Pre-tax discount rate
	£'000	%	£'000	%
Vetivex licences	822	9.87	822	10.98

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% would still not result in the requirement for an impairment provision.

**Our Accounts**

**Notes to the Consolidated Financial Statements** continued

**14. Deferred Taxes**

**(a) Recognised Deferred Tax Assets and Liabilities**

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Intangible assets	—	—	(14,204)	(13,217)	(14,204)	(13,217)
Property, plant and equipment	—	—	(550)	(556)	(550)	(556)
Inventories	478	548	—	—	478	548
Receivables	41	49	—	—	41	49
Payables	161	173	(230)	(93)	(69)	80
Share-based payments	861	600	—	—	861	600
	<b>1,541</b>	<b>1,370</b>	<b>(14,984)</b>	<b>(13,866)</b>	<b>(13,443)</b>	<b>(12,496)</b>

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 (2010: £295,000). The estimated unprovided deferred tax liability in relation to these temporary differences is £nil (2010: £73,000).

There are no unrecognised deferred tax assets in relation to losses.

**(c) Movements During the Year**

	Balance at 1 July 2009 £'000	Recognised in income £'000	Acquisitions £'000	Recognised in equity £'000	Foreign exchange adjustments £'000	Balance at 30 June 2010 £'000
Intangible assets	(15,391)	1,643	—	—	531	(13,217)
Property, plant and equipment	(521)	(35)	—	—	—	(556)
Inventories	520	28	—	—	—	548
Receivables	(98)	240	—	(93)	—	49
Payables	427	(180)	—	(167)	—	80
Trading losses	91	(91)	—	—	—	—
Share-based payments	788	32	—	(220)	—	600
	(14,184)	1,637	—	(480)	531	(12,496)

	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)

**15. Inventories**

	2011 £'000	2010 £'000
Raw materials and consumables	5,170	4,129
Work in progress	371	336
Finished goods and goods for resale	35,219	30,354
	<b>40,760</b>	<b>34,819</b>

**16. Trade and Other Receivables**

	2011 £'000	2010 £'000
Trade receivables	62,212	48,293
Other receivables	2,492	1,524
Prepayments and accrued income	1,589	1,345
	<b>66,293</b>	<b>51,162</b>

**17. Cash and Cash Equivalents**

	2011 £'000	2010 £'000
Cash at bank and in hand	30,496	26,502
Short term deposits	–	5,000
	<b>30,496</b>	<b>31,502</b>

**18. Trade and Other Payables**

	2011 £'000	2010 £'000
Trade payables	63,213	56,465
Other payables	4,770	2,991
Derivative financial instruments	397	573
Other taxation and social security	3,827	2,707
Accruals and deferred income	2,352	1,759
	<b>74,559</b>	<b>64,495</b>

**19. Current Tax Liabilities**

	2011 £'000	2010 £'000
Corporation tax payable	5,391	4,105

**Our Accounts**

**Notes to the Consolidated Financial Statements** continued

**20. Borrowings**

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Current liabilities:		
Bank loans	<b>8,000</b>	20,000
Finance lease obligations	<b>502</b>	441
	<b>8,502</b>	20,441
Non-current liabilities:		
Bank loans	<b>55,746</b>	17,500
Finance lease obligations	<b>339</b>	729
Arrangement fees netted off	<b>—</b>	(467)
	<b>56,085</b>	17,762
<b>Total borrowings</b>	<b>64,587</b>	38,203

On 21 October 2010, the Group refinanced its existing bank facility, which gave rise to a loss on extinguishment of debt of £1,256,000. The Group's revised borrowing facilities comprise a term loan of £40 million payable over four years, a £28 million revolving credit facility committed until 30 September 2014, an overdraft facility of £10 million (currently unutilised) renewable on 31 August 2012 and various finance lease obligations.

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

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Bank overdraft facility	<b>10,000</b>	10,000
Revolving credit facility	<b>254</b>	—

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 2.75% over LIBOR in respect of the term loan and revolving credit facility and 2.75% over base rate in respect of the overdraft facility. No covenants have been breached during the year ended 30 June 2011.

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

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Payable:		
Within one year	<b>8,000</b>	20,000
Between one and two years	<b>8,000</b>	5,000
Between two and five years	<b>47,746</b>	12,500
Due after five years	<b>—</b>	—
	<b>63,746</b>	37,500

## 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	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Within one year	543	510	502	447
Between one and two years	343	488	335	453
Between two and five years	4	283	4	270
Total minimum lease payments	890	1,281	841	1,170
Future finance charges	(49)	(111)	—	—
Present value of lease obligations	841	1,170	841	1,170

Further information on the interest profile of borrowings is shown in note 21.

## 21. 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 policies 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 2011, net borrowings were £34.1 million, whilst Shareholders' equity was £98.3 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. It is therefore the policy of the Board to reduce borrowings over time.

## Our Accounts

### Notes to the Consolidated Financial Statements continued

#### 21. Financial Instruments and Related Disclosures continued

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 2011 and 2010. 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.

#### 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:

- £36 million term loan
- £28 million revolving credit facility
- £10 million working capital facility
- various finance leases

The Group's undrawn borrowing facilities at 30 June 2011 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.



## 21. Financial Instruments and Related Disclosures continued

### 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 its term loan 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 2011 was £63.7 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 also hedges selectively expected currency cash flows outside normal trading activities, principally using foreign currency options.

### 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 £92,708,000 (2010: £79,795,000) 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 13.1% of gross trade receivables at 30 June 2011 (2010: 9.4%). 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.

**Our Accounts**

**Notes to the Consolidated Financial Statements** continued

**21. Financial Instruments and Related Disclosures** continued

**Fair Value of Financial Assets and Liabilities**

The following table presents the carrying amounts and the fair values of the Group's financial assets and liabilities at 30 June 2011 and 30 June 2010.

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.
- Currency options and interest rate floor and ceiling — 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 2010 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.

**Analysis of Financial Instruments**

The financial instruments of the Group are analysed as follows:

	2011		2010	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
<b>Financial assets</b>				
Cash and cash equivalents	<b>30,496</b>	<b>30,496</b>	31,502	31,502
Held for trading financial assets				
— derivatives designated as hedges	—	—	—	—
— other derivatives	—	—	—	—
Loans and receivables				
— trade receivables	<b>62,212</b>	<b>62,212</b>	48,293	48,293
— other receivables within the scope of IAS 39	—	—	—	—
	<b>62,212</b>	<b>62,212</b>	48,293	48,293
Total financial assets	<b>92,708</b>	<b>92,708</b>	79,795	79,795
<b>Financial liabilities</b>				
Bank loans and overdrafts	<b>(63,746)</b>	<b>(62,026)</b>	(37,033)	(36,155)
Held for trading financial liabilities				
— derivatives designated as hedges	<b>(397)</b>	<b>(397)</b>	(384)	(384)
— other derivatives	—	—	(189)	(189)
Finance lease liabilities	<b>(841)</b>	<b>(799)</b>	(1,170)	(1,260)
Trade payables	<b>(63,213)</b>	<b>(63,213)</b>	(56,465)	(56,465)
Total financial liabilities	<b>(128,197)</b>	<b>(126,435)</b>	(95,241)	(94,453)
Net financial liabilities	<b>(35,489)</b>	<b>(33,727)</b>	(15,446)	(14,658)

## 21. Financial Instruments and Related Disclosures continued

### 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).

<b>30 June 2011</b>	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
Derivative financial liabilities	—	(397)	—	(397)
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
30 June 2010	—	(573)	—	(573)
Derivative financial liabilities	—	(573)	—	(573)

### Credit Risk — Overdue Financial Assets

The following table shows financial assets which are overdue and for which no impairment provision has been made:

	<b>2011 £'000</b>	2010 £'000
Overdue by:		
Up to one month	<b>3,731</b>	2,403
Between one and two months	<b>1,276</b>	613
Between two and three months	<b>1,005</b>	419
Over three months	<b>1,764</b>	730
	<b>7,776</b>	4,165

The movement in the impairment provision was as follows:

	<b>2011 £'000</b>	2010 £'000
At start of period	<b>2,383</b>	2,502
Impairment provision recognised	<b>716</b>	87
Impairment provision utilised	<b>(188)</b>	(206)
At end of period	<b>2,911</b>	2,383

**Our Accounts**

**Notes to the Consolidated Financial Statements** continued

**21. Financial Instruments and Related Disclosures** continued

**Liquidity Risk – Contracted Cash Flows of Financial Liabilities**

The following table shows the cash flow commitments of the Group in respect of financial liabilities excluding derivatives at 30 June 2011 and 30 June 2010. Where interest is at floating rates, the future interest payments have been estimated using current interest rates:

<b>At 30 June 2011</b>	<b>Bank Loans and Overdrafts £'000</b>	<b>Finance Leases £'000</b>	<b>Trade Payables £'000</b>	<b>Total £'000</b>
Carrying value	(63,746)	(841)	(63,213)	(127,800)
Future interest	(2,825)	(49)	—	(2,874)
<b>Total committed cash flow</b>	<b>(66,571)</b>	<b>(890)</b>	<b>(63,213)</b>	<b>(130,674)</b>
Payable:				
Within 6 months	(4,532)	(271)	(63,213)	(68,016)
Between 6 months and 1 year	(4,573)	(271)	—	(4,844)
Between 1 and 2 years	(8,932)	(344)	—	(9,276)
Between 2 and 3 years	(12,645)	(4)	—	(12,649)
Between 3 and 4 years	(35,889)	—	—	(35,889)
Between 4 and 5 years	—	—	—	—
Over 5 years	—	—	—	—
	<b>(66,571)</b>	<b>(890)</b>	<b>(63,213)</b>	<b>(130,674)</b>

<b>At 30 June 2010</b>	<b>Bank Loans and Overdrafts £'000</b>	<b>Finance Leases £'000</b>	<b>Trade Payables £'000</b>	<b>Total £'000</b>
Carrying value	(37,033)	(1,170)	(57,482)	(95,685)
Arrangement fees netted off	(467)	—	—	(467)
Future interest	(958)	(111)	—	(1,069)
<b>Total committed cash flow</b>	<b>(38,458)</b>	<b>(1,281)</b>	<b>(57,482)</b>	<b>(97,221)</b>
Payable:				
Within 6 months	(17,744)	(271)	(57,482)	(75,497)
Between 6 months and 1 year	(2,659)	(248)	—	(2,907)
Between 1 and 2 years	(5,258)	(488)	—	(5,746)
Between 2 and 3 years	(5,178)	(274)	—	(5,452)
Between 3 and 4 years	(5,100)	—	—	(5,100)
Between 4 and 5 years	(2,519)	—	—	(2,519)
Over 5 years	—	—	—	—
	<b>(38,458)</b>	<b>(1,281)</b>	<b>(57,482)</b>	<b>(97,221)</b>

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

	<b>2011</b>		2010	
	<b>Receivables £'000</b>	<b>Payables £'000</b>	Receivables £'000	Payables £'000
Due:				
Within 6 months	—	<b>108</b>	—	384
Between 6 months and 1 year	—	<b>114</b>	—	—
Between 1 and 2 years	—	<b>175</b>	—	—
	<b>—</b>	<b>397</b>	—	384

## 21. Financial Instruments and Related Disclosures continued

The Group has a contractual obligation to pay £108,000 (2010: £384,000) under its interest rate swap arrangement covering the period from 1 July to 30 September 2011.

With the exception of the above disclosed, there are no other assets that have been impaired during the year.

### Foreign Currency Exposure

The Sterling equivalents of financial assets and liabilities denominated in foreign currencies at 30 June 2011 and 30 June 2010 were:

At 30 June 2011	Danish Krone £'000	Euro £'000	US Dollar £'000	Other £'000
<b>Financial assets</b>				
Trade receivables	1,877	3,514	4,320	5,858
Other receivables	168	30	—	232
Cash balances	1,675	786	1,163	2,622
Derivatives	—	—	—	—
Other financial assets	480	103	—	133
	4,200	4,433	5,483	8,845
<b>Financial liabilities</b>				
Bank loans and overdrafts	—	(3,997)	(27,746)	—
Finance leases	—	(406)	—	—
Trade payables	(3,225)	(1,141)	(167)	(284)
Other financial liabilities	(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
At 30 June 2010	Danish Krone £'000	Euro £'000	US Dollar £'000	Other £'000
<b>Financial assets</b>				
Trade receivables	4,542	3,033	1,374	1,267
Other receivables	—	—	—	532
Cash balances	1,367	737	948	475
Derivatives	—	—	—	—
Other financial assets	—	—	—	—
	5,909	3,770	2,322	2,274
<b>Financial liabilities</b>				
Bank loans	—	(744)	(1,595)	—
Finance leases	—	(862)	—	—
Trade payables	(9,734)	(858)	(462)	(1,001)
Derivatives	—	—	—	—
	(9,734)	(2,464)	(2,057)	(1,001)
Net balance sheet exposure	(3,825)	1,306	265	1,273

## Our Accounts

### Notes to the Consolidated Financial Statements continued

#### 21. Financial Instruments and Related Disclosures continued

##### Sensitivity Analysis

##### Interest Rate Risk

A 2% increase in interest rates compared to those ruling at 30 June 2011 would reduce Group profit before taxation by £281,000 (2010: £300,000).

##### 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	(2,195)	(5,926)
US Dollar	(2,504)	(2,287)
Euro	(723)	(723)

##### Hedges

##### Cash Flow Hedges

The Group has entered into an interest rate swap on the term loan of £40.0 million and the revolving credit facility of £28 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 2011 was a liability of £294,000 including an income tax credit of £103,000 (2010: £276,000 including an income tax credit of £107,000).

#### 22. Share Capital

	2011		2010	
	£'000	No.	£'000	No.
Allotted, called up and fully paid at start of year	<b>661</b>	<b>66,090,075</b>	656	65,581,924
New shares issued	<b>3</b>	<b>359,584</b>	5	508,151
Allotted, called up and fully paid at end of year	<b>664</b>	<b>66,449,659</b>	661	66,090,075

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital. At the 2009 Annual General Meeting, 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 359,584 new ordinary shares of 1p (2010: 508,151 new ordinary shares of 1p) were issued following the exercise of options under the Executive Incentive Plan, and the Approved, Unapproved and SAYE Share Options Schemes. The consideration received was £542,000 (2010: £589,000). 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.

## 23. Share-based Payments

During the year, the Company operated the Unapproved Share Option Scheme, the Approved Share Option Scheme, the Long Term Incentive Plan, the Executive 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.

### Executive Incentive Plan

Under this plan Executive Directors and selected Senior Executives have previously been awarded shares in the Company subject to a Total Shareholder Return ("TSR") performance target. No awards have been made under this plan since 30 June 2008.

The TSR target measures the Company's TSR performance against the FTSE Small Cap Index over a three year measurement period (commencing at the beginning of the financial year in which the awards are made). One hundred per cent of the shares on plans set up prior to 30 June 2008 will vest if the Company achieves an upper quartile performance, 30% 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.

In addition, awards will only vest if, in the opinion of the Remuneration Committee, the performance of the Company has been satisfactory.

### Long Term Incentive Plan

For awards granted after 30 June 2008 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.

**Our Accounts**

**Notes to the Consolidated Financial Statements** continued

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

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



### 23. Share-based Payments continued Year ended 30 June 2010

	Exercise Period	Exercise price per share Pence	At 1 July 2009 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2010 Number
<b>Unapproved Share Option Scheme</b>							
14 September 2000	2003–2010	120.00	7,000	(7,000)	—	—	—
22 April 2002	2005–2012	153.50	6,500	(3,000)	—	—	3,500
11 April 2003	2006–2013	58.50	3,500	—	—	(1,000)	2,500
19 March 2007	2010–2017	289.00	26,139	(5,004)	—	—	21,135
2 April 2008	2011–2018	366.00	48,038	(3,000)	—	—	45,038
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
			179,598	(18,004)	52,854	(1,000)	213,448
<b>Approved Share Option Scheme</b>							
2 April 2004	2007–2014	134.50	30,000	(9,000)	—	(2,000)	19,000
3 December 2004	2007–2014	180.00	16,667	—	—	—	16,667
5 April 2005	2008–2015	202.50	54,500	(18,500)	—	(5,000)	31,000
15 March 2006	2009–2016	252.00	112,000	(48,000)	—	(3,000)	61,000
19 March 2007	2010–2017	289.00	149,861	(39,196)	—	(5,000)	105,665
2 April 2008	2011–2018	366.00	69,962	—	—	(2,000)	67,962
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
			458,569	(114,696)	33,146	(17,000)	360,019
<b>Executive Incentive Plan and Long Term Incentive Plan</b>							
14 September 2006	2009–2010	—	216,128	(216,128)	—	—	—
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
			695,872	(216,128)	277,758	—	757,502
<b>SAYE Option Scheme</b>							
15 October 2004	2007–2009	124.00	69,025	(69,025)	—	—	—
18 October 2005	2008–2010	204.00	20,357	—	—	(947)	19,410
12 October 2006	2009–2013	195.74	118,794	(89,274)	—	(1,839)	27,681
17 October 2007	2010–2014	280.00	144,291	(518)	—	(4,211)	139,562
13 October 2008	2011–2015	343.00	115,440	(506)	—	(5,499)	109,435
12 October 2009	2012–2016	332.00	—	—	147,522	(9,529)	137,993
			467,907	(159,323)	147,522	(22,025)	434,081
<b>Total</b>			1,801,946	(508,151)	511,280	(40,025)	1,765,050
Weighted average exercise price			169.3p	63.4p	172.5p	276.2p	183.3p

The weighted average exercise price of options eligible to be exercised at 30 June 2011 was 293.2p (2010: 240.3p).

For options exercised during the year, the weighted average market price at the date of exercise was 503p (2010: 443p). The weighted average remaining contractual lives of options outstanding at the consolidated statement of financial position date was four years (2010: four years).

## Our Accounts

### Notes to the Consolidated Financial Statements continued

#### 23. Share-based Payments continued

Outstanding options on all Executive Incentive, Approved and Unapproved plans prior to 30 June 2008 were exercisable at 30 June 2011.

No options issued under SAYE plans were exercisable at 30 June 2011.

As allowed by the transitional provisions of IFRS 1 and IFRS 2, included above are options over shares that have not been recognised in accordance with IFRS 2 as the options were granted before 7 November 2002.

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 Executive Incentive Plan and 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:

#### Executive Incentive Plan and Long Term Incentive Plan

Date of grant	22/12/10	24/9/09
Number of shares awarded	235,841	277,758
Share price at date of grant	514.00p	404.10p
Exercise price	Nil	Nil
Expected life	3 years	3 years
Risk-free rate	1.60%	1.91%
Volatility	39%	31%
Dividend yield	2.04%	2.25%
Fair value per share	322p	236p

#### Unapproved and Approved Share Option Schemes

Date of grant	28/2/11	1/3/10
Number of shares awarded	84,000	86,000
Share price at date of grant	507.5p	455p
Exercise price	503p	456p
Expected life	5 years	5 years
Risk-free rate	2.65%	2.84%
Volatility	36%	33%
Dividend yield	2.07%	2.00%
Fair value per share	149p	124p

### 23. Share-based Payments continued Save as You Earn Option Scheme

Date of grant	22/12/10	12/10/09
Number of shares awarded	112,743	147,522
Share price at date of grant	507p	445p
Exercise price	409p	332p
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	1.46%	1.87%
– five year scheme	2.24%	2.55%
– seven year scheme	2.90%	3.03%
Volatility	36%	33%
Dividend yield	2.07%	2.04%
Fair value per share		
– three year scheme	165p	134p
– five year scheme	181p	156p
– seven year scheme	201p	148p

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 2011 of £229,000 (2010: £142,000), of which £15,000 (2010: £80,000) related to vested options. The total charge to the Income Statement in respect of share-based payments was:

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Equity settled share-based transactions	<b>830</b>	817
Cash settled share-based transactions	<b>118</b>	93
	<b>948</b>	910

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

**Our Accounts**

**Notes to the Consolidated Financial Statements** continued

**24. Analysis of Net Borrowings**

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Bank loans	<b>(63,746)</b>	(37,033)
Finance leases and hire purchase contracts	<b>(841)</b>	(1,170)
Cash and cash equivalents	<b>30,496</b>	31,502
Net borrowings	<b>(34,091)</b>	(6,701)

**25. 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	
	<b>2011</b>	2010	<b>2011</b>	2010	<b>2011</b>	2010
	<b>£'000</b>	£'000	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Within one year	<b>1,219</b>	1,200	<b>1,278</b>	1,512	<b>2,497</b>	2,712
Between one and five years	<b>4,062</b>	4,159	<b>1,234</b>	1,494	<b>5,296</b>	5,653
In five years or more	<b>3,472</b>	1,582	—	5	<b>3,472</b>	1,587
	<b>8,753</b>	6,941	<b>2,512</b>	3,011	<b>11,265</b>	9,952

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.

**26. Foreign Exchange Rates**

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

	Closing rate at 30 June 2010	Average rate	Closing rate at 30 June 2011
Danish Krone	9.0983	8.614	8.256
Euro	1.2214	1.1556	1.1070
US Dollar	1.4961	1.5745	1.6073

## 27. Acquisitions

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

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 £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. achieve 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 exceed 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.

**Our Accounts**

**Notes to the Consolidated Financial Statements** continued

**27. Acquisitions continued**

*DermaPet* Inc. contributed £4,993,000 revenue and £1,986,000 operating profit to the Group's profit for the period between the date of acquisition and the balance sheet date.

*DermaPet* Inc. has now been fully integrated into DVP US and its results are reported within the US Pharmaceuticals segment.

**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	Provisional fair value £'000
<b>Recognised amounts of identifiable assets acquired and liabilities assumed</b>		
<b>Identifiable assets</b>		
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
<b>Identifiable liabilities</b>		
Trade and other payables	(318)	(318)
Deferred tax liabilities	(36)	(1,546)
<b>Net identifiable assets</b>	<b>459</b>	<b>4,541</b>
<b>Goodwill</b>		<b>1,845</b>
<b>Total consideration</b>		<b>6,386</b>
<b>Satisfied by:</b>		
Cash		5,586
Contingent consideration arrangement		800
<b>Total consideration transferred</b>		<b>6,386</b>
Net cash outflow arising on acquisition		
Cash consideration		5,586
Less: cash and cash equivalent balances acquired		(59)
		<b>5,527</b>

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 £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.

*Genitrix* Limited has now been fully integrated into DVP EU and its results are reported within the European Pharmaceuticals segment.

## 27. Acquisitions continued

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

*Genitrix* Limited contributed £1,565,000 revenue and £736,000 operating profit to the Group's profit for the period between the date of acquisition and the balance sheet date.

If the acquisitions of *DermaPet* Inc. and *Genitrix* Limited had been completed on the first day of the financial year, Group revenues for the period would have been £393,754,000 and underlying pre-tax profit would have been £31,263,000.

## 28. Contingent Liability

The Danish tax authorities are continuing their investigation into the tax return of Dechra Veterinary Products Holding A/S (formerly *VetXX* Holding A/S) for the period ended 31 December 2005, a period prior to the acquisition of the company. They are seeking to reduce the tax losses arising in this year by DKK17.5 million. They have also indicated that they will be investigating the tax returns for 2006, 2007 and 2008. The Directors believe that there are strong arguments to resist this claim. However, should the dispute be lost, the deferred tax asset recognised on acquisition would be reduced by approximately £1.3 million.

## 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 132.

### 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 53 to 62. 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.

## Our Accounts

### Company Balance Sheet

At 30 June 2011

	Note	2011 £'000	2010 £'000
<b>Fixed assets</b>			
Investments	iii	<b>132,119</b>	114,188
		<b>132,119</b>	114,188
<b>Current assets</b>			
Debtors (includes amounts falling due after more than one year of £2,417,000 (2010: £2,961,000))	iv	<b>39,873</b>	20,726
Cash at bank and in hand		<b>2</b>	5,007
		<b>39,875</b>	25,733
Creditors: amounts falling due within one year	v	<b>(43,866)</b>	(49,775)
<b>Net current liabilities</b>		<b>(3,991)</b>	(24,042)
Total assets less current liabilities		<b>128,128</b>	90,146
Creditors: amounts falling due after more than one year	v	<b>(55,746)</b>	(17,101)
<b>Net assets</b>		<b>72,382</b>	73,045
<b>Capital and reserves</b>			
Called up share capital	viii	<b>664</b>	661
Share premium account	ix	<b>63,559</b>	63,021
Hedging reserve	ix	<b>(294)</b>	(276)
Profit and loss account	ix	<b>8,453</b>	9,639
<b>Total equity Shareholders' funds</b>		<b>72,382</b>	73,045

The financial statements were approved by the Board of Directors on 6 September 2011 and are signed on its behalf by:



**Ian Page**  
Director



**Simon Evans**  
Director

Company number: 3369634



## Reconciliation of Movements in Shareholders' Funds

For the year ended 30 June 2011

	<b>2011</b>	2010
	<b>£'000</b>	£'000
At start of period	<b>73,045</b>	75,801
Profit for the financial year	<b>5,132</b>	1,606
Effective portion of changes in fair value of cash flow hedges	<b>(506)</b>	427
Cash flow hedges recycled to profit and loss account	<b>488</b>	—
Share-based payments charge	<b>903</b>	817
Dividends paid	<b>(7,221)</b>	(6,195)
New shares issued	<b>541</b>	589
At end of period	<b>72,382</b>	73,045

## Our Accounts

### 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 £5,132,000 (2010: £1,606,000). 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.

#### **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, floors and ceilings 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.

## (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 of 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 an Executive Incentive Plan and 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 Executive Incentive Plan and the Long Term Incentive Plan have been determined using the Monte Carlo simulation model.

## Our Accounts

### Notes to the Company Financial Statements continued

#### (i) Principal Accounting Policies of the Company continued

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.

#### 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 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 £1,696,000 (2010: £1,501,000). Information relating to Directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 53 to 62.

**(iii) Fixed Asset Investments**

	Shares in Subsidiary Undertakings £'000
Cost	
At 1 July 2010	114,188
Additions	17,931
At 30 June 2011	132,119
Net book value	
At 30 June 2011	132,119
At 30 June 2010	114,188

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

Additions represent the acquisition of *Genitrix* Limited 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.

**(iv) Debtors**

	<b>2011</b> £'000	2010 £'000
Amounts owed by subsidiary undertakings	<b>36,836</b>	18,319
Group relief receivable	<b>2,248</b>	1,658
Deferred taxation (see note (vii))	<b>639</b>	574
Other debtors	<b>98</b>	63
Prepayments and accrued income	<b>52</b>	112
	<b>39,873</b>	20,726

Included in debtors are amounts of £639,000 (2010: £574,000) due after more than one year relating to deferred tax assets. Of the amounts owed by subsidiary undertakings, £1,778,000 is due after more than one year (2010: £2,387,000).

**(v) Creditors**

	<b>2011</b> £'000	2010 £'000
Bank loans and overdrafts (see note (vi))	<b>31,564</b>	48,150
Amounts due to subsidiary undertakings	<b>9,930</b>	503
Other creditors	<b>868</b>	44
Derivative financial instruments	<b>397</b>	383
Other taxation and social security	<b>79</b>	72
Accruals and deferred income	<b>1,028</b>	623
	<b>43,866</b>	49,775

In accordance with FRS 21 'Events after the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2011 of 8.40p per share has not been accrued for in these financial statements. It will be shown in the financial statements for the year ending 30 June 2012. The total cost of the proposed final dividend is £5,582,000.

**Our Accounts**

**Notes to the Company Financial Statements** continued

**(v) Creditors continued**

	2011 £'000	Falling due after more than one year 2010 £'000
Bank loans (see note (vi))	<b>55,746</b>	17,033
Other creditors	—	68
	<b>55,746</b>	17,101

**(vi) Borrowings**

	2011 £'000	2010 £'000
Borrowings due within one year		
Bank overdraft	<b>23,564</b>	28,150
Bank loan	<b>8,000</b>	20,000
	<b>31,564</b>	48,150
Borrowings due after more than one year		
Aggregate bank loan instalments repayable:		
between one and two years	<b>8,000</b>	5,000
between two and five years	<b>47,746</b>	12,500
after five years	—	—
	<b>55,746</b>	17,500
Arrangement fees netted off	—	(467)
	<b>55,746</b>	17,033
Total borrowings	<b>87,310</b>	65,183

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 2.75% over LIBOR on the bank loan and revolving credit facility and 2.75% over base rate on the bank overdraft. No covenants have been breached during the year ended 30 June 2011.

The Company guarantees certain borrowings of other Group companies, which at 30 June 2011 amounted to £773,000 (2010: £1,058,000).

**(vii) Deferred Tax**

	£'000
At 1 July 2010	574
Transfer to profit and loss account	65
Transfer to equity	—
<b>At 30 June 2011 (included in debtors)</b>	<b>639</b>

The amounts provided for deferred taxation at 26% (2010: 28%) are as follows:

	2011 £'000	2010 £'000
Short term timing differences	<b>639</b>	574

**(viii) Called up Share Capital**

Issued share capital	Ordinary Shares of 1p each	
	£'000	No.
Allotted, called up and fully paid at 1 July 2010	661	66,090,075
New shares issued	3	359,584
<b>Allotted, called up and fully paid at 30 June 2011</b>	<b>664</b>	<b>66,449,659</b>

During the year, 359,584 new ordinary shares of 1p were issued following the exercise of options under the Executive Incentive Plan and the Approved, Unapproved and SAYE share option schemes. The consideration received was £542,000.

**Share Options**

Details of outstanding share options over ordinary shares of 1p at 30 June 2011 under the various Group share option schemes are shown in note 23 to the Consolidated Financial Statements.

**(ix) Reserves**

	Share premium account £'000	Hedging reserve £'000	Profit and loss account £'000
At 1 July 2010	63,021	(276)	9,639
New shares issued	538	—	—
Profit for the financial year	—	—	5,132
Effective portion of changes in fair value of cash flow hedges	—	(506)	—
Cash flow hedges recycled to profit and loss account	—	488	—
Dividend (see note 9 to the consolidated financial statements)	—	—	(7,221)
Share-based payments charge	—	—	903
<b>At 30 June 2011</b>	<b>63,559</b>	<b>(294)</b>	<b>8,453</b>

**Our Accounts**

**Notes to the Company Financial Statements** continued

**(x) 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
<b>Operating Subsidiaries</b>		
Dechra Limited§	England & Wales	Wholesaler, marketer and manufacturer of pharmaceuticals; Wholesaler and marketer of veterinary products, instruments and equipment; Provider of veterinary laboratory services
Dechra Veterinary Products A/S	Denmark	Marketer and manufacturer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products Limited¶	England & Wales	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products OY¶	Finland	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products SAS¶	France	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products 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 LLC**	USA	Distributor of veterinary products
<b>Other Subsidiaries</b>		
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 LimitedΩ	England & Wales	Holding Company
Genitrix Limited	England & Wales	Non-trading
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

Except where indicated the share capital held by the Company consists of ordinary shares only

\* 100% of ordinary share capital held by Veneto Limited. Voting preference shares held by Dechra Pharmaceuticals PLC Employee Benefit Trust.

Ω 100% of both ordinary and preference share capital is held by Dechra Pharmaceuticals PLC.

§ 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 Limited.

†† 100% of ordinary share capital held by Dechra Veterinary Products LLC.



## Financial History

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
<b>Consolidated income statement</b>					
Revenue	<b>389,237</b>	369,369	349,964	304,371	253,803
Underlying operating profit	<b>31,823</b>	28,190	24,971	19,142	13,876
Underlying profit before taxation	<b>30,069</b>	26,056	23,406	16,853	12,646
Underlying profit after taxation	<b>22,748</b>	19,437	16,759	12,185	8,866
Underlying earnings per share — basic (pence)	<b>34.33</b>	29.50	25.61	20.81	16.89
— diluted (pence)	<b>34.22</b>	29.39	25.40	20.64	16.66
Dividend per share (pence)	<b>12.10</b>	10.50	9.10	8.25	7.50
Average number of employees	<b>1,005</b>	1,021	1,012	889	747
<b>Consolidated statement of financial position</b>					
Non-current assets	<b>132,819</b>	88,044	97,605	99,652	18,828
Working capital	<b>32,494</b>	21,486	17,548	17,284	13,264
Deferred and contingent consideration	<b>(14,055)</b>	—	—	—	—
Current tax liabilities	<b>(5,391)</b>	(4,105)	(4,756)	(2,824)	(2,464)
Deferred tax liabilities	<b>(13,443)</b>	(12,496)	(14,184)	(15,316)	(147)
Net (borrowings)/cash	<b>(34,091)</b>	(6,701)	(15,527)	(26,997)	1,027
Shareholders' funds	<b>98,333</b>	86,228	80,686	71,799	30,508
<b>Consolidated cash flow</b>					
Cash flow from operating activities	<b>25,374</b>	26,662	27,557	16,053	14,328
Net interest paid	<b>(2,629)</b>	(2,208)	(1,851)	(2,802)	(1,169)
Tax paid	<b>(5,034)</b>	(6,124)	(3,227)	(3,041)	(2,895)
Capital expenditure	<b>(4,090)</b>	(2,721)	(3,634)	(2,112)	(5,325)
Acquisitions	<b>(33,047)</b>	—	—	(65,151)	(717)
Equity dividends paid	<b>(7,221)</b>	(6,195)	(5,565)	(4,420)	(3,595)
Financing	<b>26,090</b>	(4,626)	(8,843)	66,500	(3,124)
Changes in cash in period	<b>(557)</b>	4,788	4,437	5,027	(2,497)



Visit us at our website  
[www.dechra.com](http://www.dechra.com)

## Shareholder Information

### Financial Calendar

Interim Management Statement	4 November 2011
2011 Annual General Meeting	4 November 2011
Final Dividend Ex Div Date	9 November 2011
Final Dividend Record Date	11 November 2011
Final Dividend Payment Date	25 November 2011

### Annual General Meeting

The 2011 Annual General Meeting of the Company will be held at 1.00 pm on 4 November 2011 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](http://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 recently launched Values and a number of our internal policies are published on the website.

### 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](http://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's 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 offers a Share Dealing service, to buy or sell shares. Further information can be obtained from [www.uk.computershare.com/Investor/ShareDealing.asp](http://www.uk.computershare.com/Investor/ShareDealing.asp) 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 ("FSA").

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

## Warning to Shareholders

In recent years, many companies have become aware that their Shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK Shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive, and a 2006 survey by the FSA has reported that the average amount lost by investors is around £20,000.

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. 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 receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation
- Check that they are properly authorised by the FSA before getting involved by visiting [www.fsa.gov.uk/register/](http://www.fsa.gov.uk/register/)
- Report the matter to the FSA either by calling 0845 606 1234 or visiting [www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk)
- If the calls persist, hang up

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at [www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml](http://www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml)

Details of any share dealing facilities that the Company endorses will be included in company mailings.

More detailed information on this or similar activity can be found on the CFEB website [www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk).

## 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.

# 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

## Principal Bankers

Lloyds Banking Group  
2nd Floor  
125 Colmore Row  
Birmingham  
B3 3SF

## 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

Citigate Dewe Rogerson Limited  
1 Wrens Court  
Lower Queen Street  
Birmingham  
B72 1RT

## 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 under licence from Dermcare-Vet Pty. Ltd.



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](mailto:corporate.enquiries@dechra.com)

Registered in England No. 3369634

**[www.dechra.com](http://www.dechra.com)**