Developing
Focusing
Delivering

Annual Report and Accounts for the year ended 30 June 2013

Stock Code: DPH

Dechra®

Pharmaceuticals PLC

www.dechra.com

Developing
the Business through Investment in our Pipeline

The development of our product pipeline is critical to our future organic growth. Our spend has more than doubled in the last five years with an increase of almost 39% in the last financial year, taking our total spend to £8 million.

Research and Development Spend

up 38.8%

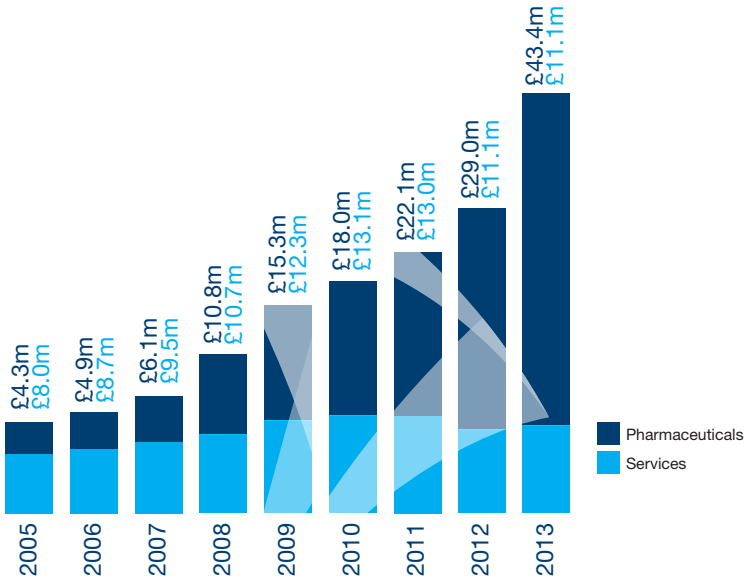
at £8.0m

(2012: £5.7m)

Focusing
on our Veterinary Pharmaceuticals Product Strategy

In July 2013 we announced the disposal of our Services Segment namely National Veterinary Services, Dechra Laboratory Services and Dechra Specialist Laboratory Services. This completes our evolution and transformation from a low margin UK centric services company to an international specialist veterinary pharmaceuticals business.

Underlying Operating Profit split by Services and Pharmaceuticals Segments since 2005*
£ million



* Excludes corporate and other unallocated costs

1 July 2000 to 30 June 2001

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

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

1 July 2001 to 30 June 2002

December 2001
Vetoryl® launched in the UK

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

April 2002
Felimazole® launched in the UK

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

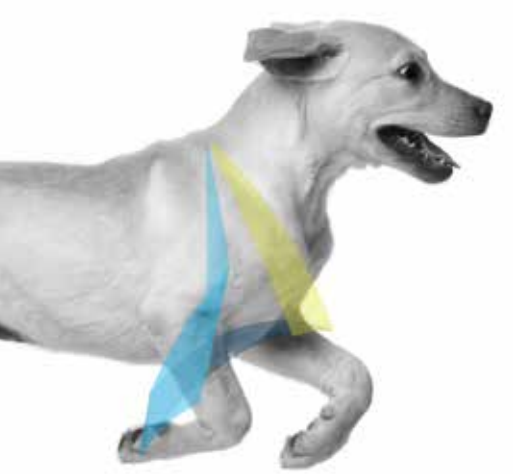
	2012	2013
Revenue £ million	156.4	170.2
Underlying Profit Before Taxation £ million	5.8	7.3
Dividend per Share pence	3.44†	3.78†

* From this point forward reported under IFRS.
† Adjusted for the bonus element of the Rights Issue.

The above financial metrics include the results of discontinued operations.

Delivering

Sustainable Growth and Value



Upon Dechra's Stock Market Listing in 2001 the majority of the Group's revenue and profit was derived from National Veterinary Services (a UK services and distribution business). Throughout our evolution, utilising the Services Segment's strong cash generation, the Group has successfully evolved into a high margin, cash generative, self-funding international specialist veterinary pharmaceuticals and related products business.

1 July 2002 to 30 June 2003

April 2003
North Western Laboratories rebranded to NationWide Laboratories

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

Revenue £ million 179.3
Underlying Profit Before Taxation £ million 6.7
Dividend per Share pence 3.78†

1 July 2003 to 30 June 2004

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

Revenue £ million 186.8
Underlying Profit Before Taxation £ million 8.1
Dividend per Share pence 4.32†

1 July 2004 to 30 June 2005

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

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

April 2005
Opened a US operation based in Kansas City

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

Revenue* £ million 210.3
Underlying Profit Before Taxation £ million 9.7
Dividend per Share pence 4.78†

1 July 2005 to 30 June 2006

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

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

Revenue £ million 232.5
Underlying Profit Before Taxation £ million 11.0
Dividend per Share pence 5.73†

1 July 2006 to 30 June 2007

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

April 2007
Acquired Leeds Veterinary Laboratories for £0.75 million

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

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

1 July 2007 to 30 June 2008

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

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

1 July 2008 to 30 June 2009

December 2008
VetXX integrated and rebranded Dechra Veterinary Products

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

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

June 2009
Received approval to market *Felimazole* in USA

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

1 July 2009 to 30 June 2010

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

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

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

1 July 2010 to 30 June 2011

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

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

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

1 July 2011 to 30 June 2012

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

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

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

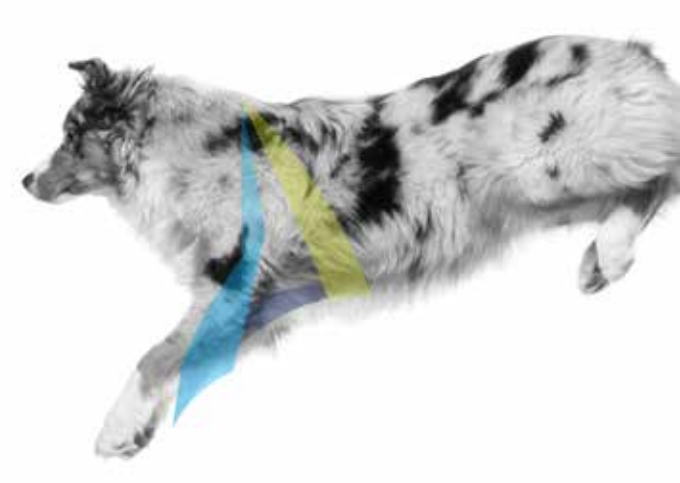
1 July 2012 to 30 June 2013

May 2013
Announced the closure of our manufacturing site in Uldum, Denmark. Skipton and Bladel sites renamed Dechra Manufacturing

July 2013
Announced the disposal of the Services Segment to Patterson Companies, Inc for £87.5 million, creating a clear strategic focus

Revenue £ million 522.4
Underlying Profit Before Taxation £ million 44.6
Dividend per Share pence 14.00†

Dechra®
Pharmaceuticals PLC



Welcome to Dechra Pharmaceuticals PLC

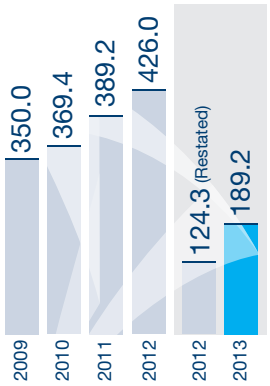
Dechra is an international specialist veterinary pharmaceuticals business. Our expertise is in the development, manufacturing and sales and marketing of high quality products exclusively for veterinarians worldwide.

Financial Highlights

Revenue

£ million

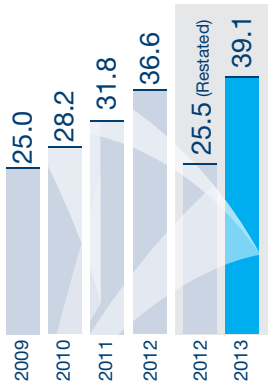
up 52.2%



Underlying Operating Profit*

£ million

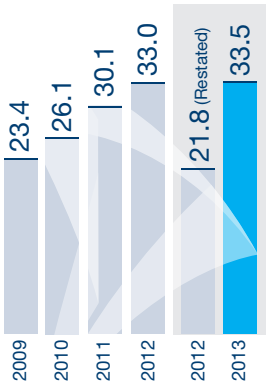
up 53.1%



Underlying Profit Before Taxation*

£ million

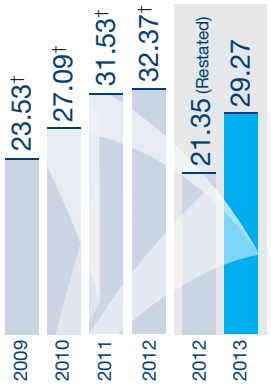
up 53.7%



Underlying Earnings per Share*

pence

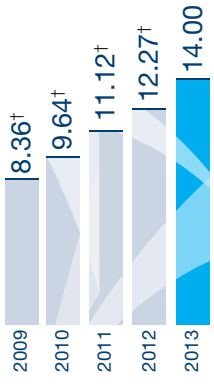
up 37.1%



Dividend per Share

pence

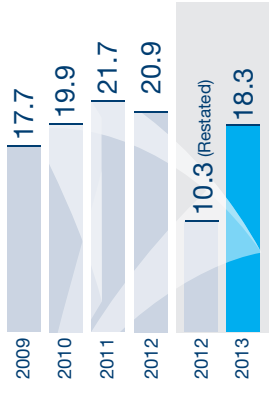
up14.1%



Operating Profit

£ million

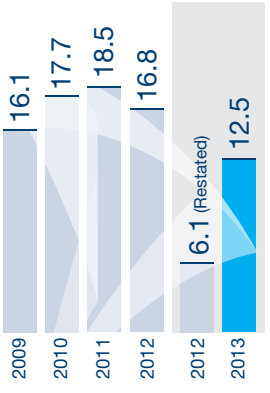
up 78.5%



Profit Before Taxation

£ million

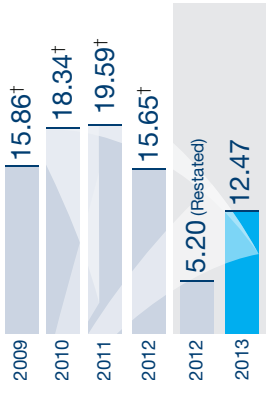
up 104.2%



Earnings per Share

pence

up 31.6%



* Non-underlying items comprise amortisation of acquired intangibles, acquisition expenses, rationalisation costs, loss on extinguishment of debt, the unwinding of discounts on deferred and contingent consideration and expenses related to the disposal of discounted operations (see notes 4, 5 and 29).
† Adjusted for the bonus element of the Rights Issue.
Restated to reflect continuing operations.

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

Our Strategy

To develop an international high margin, cash generative, specialist veterinary pharmaceuticals and related products business.

Read more about our Strategy 10

Operational Highlights

- Creation of a pure play pharmaceuticals business
- *Eurovet* successfully integrated and expected synergies realised
- Divestment of the Services Segment completed on 16 August 2013, generating proceeds of £87.5 million. Net cash position after receipt of the proceeds is circa £7.0 million
- Underlying diluted EPS for continuing operations at 29.07 pence, growth of 42.2% versus last year (at constant exchange rate)
- Profit before tax on continuing operations up by 59.7% (at constant exchange rate) benefiting from a full year of *Eurovet* and a solid core performance
- Group revenue on continuing operations up by 56.6% (at constant exchange rate) despite slow trading in the third quarter and third party supply issues in US
- Focus therapeutic areas in companion animal products grew by 11.2% (at constant exchange rate)
- Increased investment in Research and Development to support the product pipeline and enlarged Group post-*Eurovet* acquisition
- Dividend per share up 14.1% to 14.00 pence

Our Key Strengths

- Specialist products
- People and expertise
- Strategic focus
- International footprint
- Strong financial platform
- Development pipeline
- Strong market position
- Growing markets
- Customer satisfaction
- Innovation

Read more about Reasons to Invest 08

Our Values

Our six Dechra Values: Dedication, Enjoyment, Courage, Honesty, Relationships and Ambition reflect the best aspects of behaviour and competence in Dechra. We embrace the Values at every level of the business.

Read more about Our Values 88

Getting Around

An introduction to the signposting tools used in this report:

Read more about our Business Model 09

Read more online www.dechra.com

QR Codes

Instant access to sections of our online report at the click of your smartphone's code reader app:

Contents


Dechra
Pharmaceuticals PLC

Strategic Report

The Group Strategic Report provides a review of the business for the financial year and describes how we manage risks.

The report outlines the developments and performance of the Group during the financial year, the position at the end of the year and discusses the main trends and factors that could affect the future.

Key performance indicators are published to show the performance and position of the Company. Pages 9 to 11 outline the Company's business model and strategy.

Our Business

Pages 4 to 25

Details the composition of the Group, features a statement from the Chairman and senior management commentary on the individual business segments.

Our Performance

Pages 26 to 47

Outlines the developments and performance of the Group during the financial year with commentary from the Chief Executive Officer and Chief Financial Officer.

Above:
PLC Head Office, Northwich, Cheshire

Group at a Glance

EU Pharmaceuticals

Dechra Veterinary Products EU ("DVP EU")

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

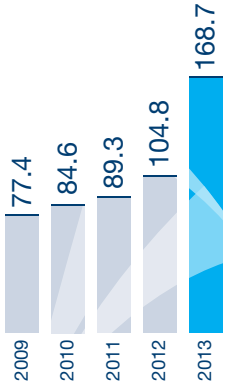
Dechra Pharmaceuticals Manufacturing ("DPM")

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

Revenue

£ million

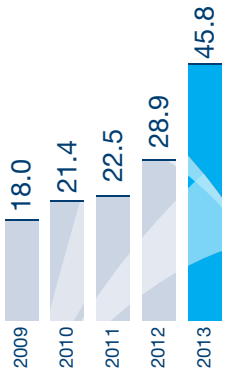
up 61.0%



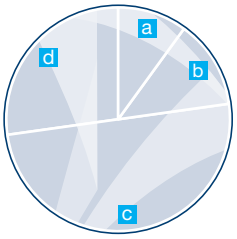
Operating Profit

£ million

up 58.5%

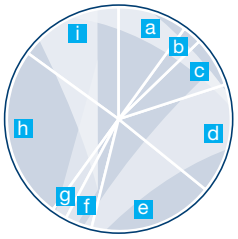


Sales Revenue



a Third party Pharma 10%
b Export 13%
c Veterinary Wholesalers 50%
d Veterinary Practices 27%

Sales Revenue by specialisation



a Dermatology 10%
b Opthalmology 3%
c Equine Medicine 7%
d Endocrinology 16%
e Pet Diets 18%
f Analgesia and Critical Care 4%
g Cardiovascular 2%
h Food Producing Animals 25%
i Other 15%

Read more about DVP EU 12

US Pharmaceuticals

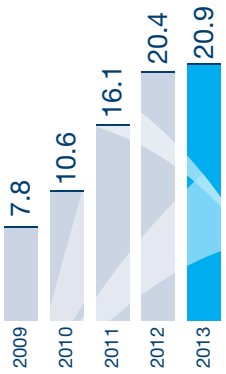
Dechra Veterinary Products US ("DVP US")

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

Revenue

£ million

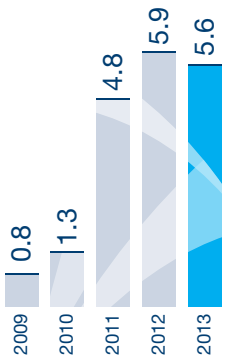
up 2.6%



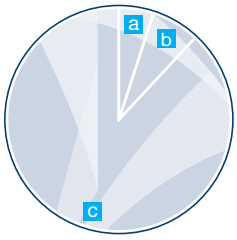
Operating Profit

£ million

down 4.7%

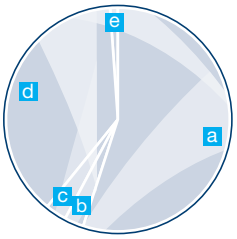


Sales Revenue



a Third party Pharma 5%
b Export 7%
c Distributors 88%

Sales Revenue by specialisation



a Dermatology 55%
b Opthalmology 3%
c Equine Medicine 3%
d Endocrinology 38%
e Other 1%

Read more about DVP US 14

Product Development

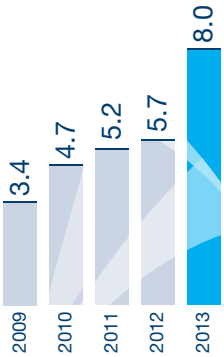
Product Development and Regulatory Affairs ("PDRA")

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

Research and Development Spend

£ million

up 38.8%



Read more about
Product Development
23

Above:
Product Development and Regulatory team employees

Chairman's Statement

Michael Redmond
Non-Executive Chairman

Delivering Growth in Our Focus Therapeutic Areas in Europe

Our European Pharmaceuticals Segment continues to show progress and achieved sales of £168.7 million, an increase of 66.3% (at constant exchange rates ("CER")) over the previous year. On a like-for-like basis, adjusting 2012 to include a full year of *Eurovet* revenue, growth is 5%, despite having been affected by slow trading in the third quarter due to bad weather, as previously reported. Importantly, on a like-for-like basis all key therapeutic areas delivered a good performance:

- Our focus companion animal products performed very well increasing by 18.4% (at CER), with our key products *Vetoryl*, *Felimazole* and *Cardisure*® delivering double digit revenue growth.
- Despite a challenging environment for our food producing animal products, caused principally by pressure to reduce antimicrobials usage due to concerns over increasing resistance, we saw modest sales growth of our key water soluble antibiotics. Total sales for key products in this category remained flat due to competition issues on *Cyclospray*® (an aerosol for cattle foot rot).
- Diets grew by 2.6% (at CER) driven by the relaunch of our new wet diet presentation and a new intensive support diet for animals post-surgery.

The results reflect the successful integration of *Eurovet.* This acquisition has met our expectations, expanding our geographical footprint in Europe, adding complementary products to our companion animal product portfolio, providing an entrance into the food producing animal market and increasing our manufacturing capabilities.

Operating profit for the European Pharmaceuticals Segment increased to £45.8 million from £28.9 million in the prior year.

Strong US Core Performance

Revenues in the US totalled £20.5 million, growth of 4.7% (at CER) compared to the prior year. Third party supply issues on our ophthalmic and dermatology ranges hampered the US performance, as previously described in our trading update on 10 July 2013. However, adjusting for these unexpected circumstances, the core sales growth was 10.3% (at CER) with *Vetoryl* continuing to grow at 11.6% and *Felimazole* at 16.3%.

During the year, Dechra Veterinary Products US continued to invest in and build its sales team in order to reinforce its marketing activities and further strengthen relationships with veterinarians. As a result the operating profit for this Segment was slightly down at £5.6 million compared to £5.9 million in 2012.

Strategic Divestment of the Services Segment

The divestment of our Services Segment, completed post year end on 16 August 2013, represents a further step in the Board strategy to create a focused pure play specialist veterinary pharmaceuticals business. The Board believes that the Pharmaceuticals businesses are higher margin, cash generative businesses, operating in a global market with attractive long term growth prospects.

The net proceeds of the disposal will be used initially to reduce Group's debt but provides the Group with additional resources to continue its development, both organically and through strategic acquisitions.

Increased Investment in Research and Development ("R&D")

In 2013 our Development and Regulatory team achieved approvals for:

- three new products;
- three line extensions; and
- three existing products licensed into new territories.

At the same time, development of our novel and generic products continued; four projects have now reached the clinical phase of development. We will also file imminetly in the UK and the US for a new equine product.

As a specialist veterinary pharmaceuticals business, the Board has decided to increase the Group's focus and investment in R&D as a key driver of future growth and profitability.

Net Debt

As expected our net borrowing position at the end of the financial year improved compared to 2012, reducing from £86.7 million to £80.8 million.

"This has been a transformational year for Dechra. The disposal of the Services Segment represents a major step forward in the Board's strategy to create a specialist veterinary pharmaceuticals business. We expect the quality of the Group's business and its prospects to be enhanced as a result of the disposal."

Read more about
Reasons to Invest
08

Above:
Visual vials inspection at DPM, Skipton

Dividend

Subject to Shareholder approval at the forthcoming Annual General Meeting on 17 October 2013, the Board is proposing a final dividend of 9.66 pence per share, reflecting underlying EPS growth, and bringing the total dividend per share to 14.00 pence for the financial year ended 2013. The proposed final dividend shall be paid on 22 November 2013 to Shareholders on the Register on the Register at 8 November 2013. The shares will become ex-dividend on 6 November 2013.

Prospects

The divestment will enable management to focus exclusively on the areas of the business with the strongest margin, cash conversion and growth prospects. We intend to increase our focus on and investment in Research and Development to ensure the value of our pipeline is delivered and we continue to assess selective, strategic acquisitions which would add new products or geographies.

We will continue to refine our strategy for the continuing Group in the next financial year. The Board remains committed to building a cash generative specialist veterinary pharmaceuticals business which will:

- expand our geographical footprint;
- maximising opportunities with our existing products; and
- advancing and deliver our promising pipeline.

Current trading is ahead of last year and in line with management's expectations. The Board is confident that the Group will continue to perform well despite a challenging environment and that our strategy will deliver enhanced Shareholder value.

Michael Redmond
Non-Executive Chairman
3 September 2013

Reasons to Invest

The table below summarises how our key strategic areas are linked to our risks and key performance indicators and highlights what our mid-term priorities are. This provides an user friendly guide on how to access further information in this report.

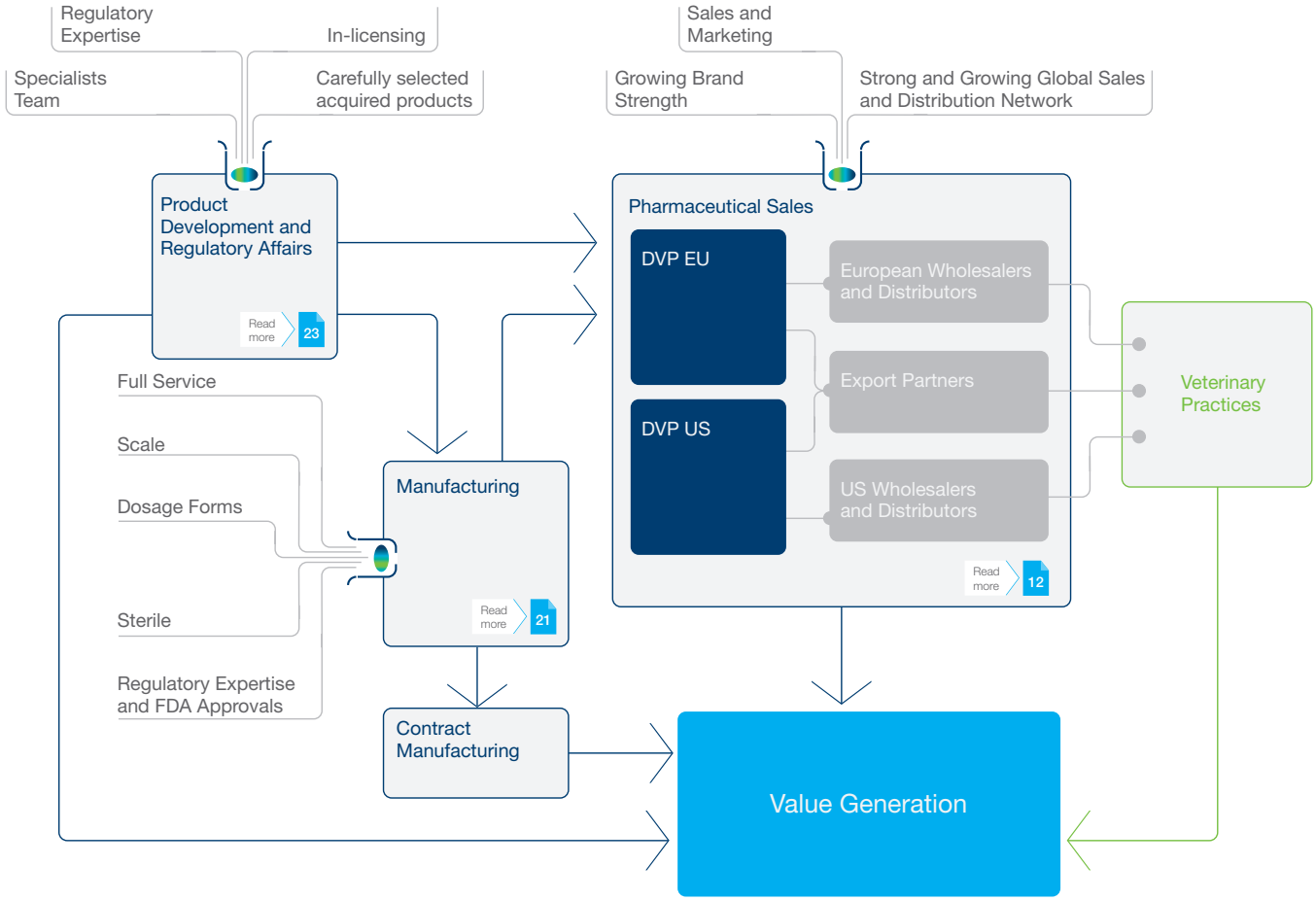
	 Innovate	 Manufacture	 Commercialise	 Shareholder Return	READ MORE
Our Strategy	• Deliver the pipeline • Focus on specialist therapeutic areas • In-license opportunities • Innovative management team	• Efficient effective operations • Wide range of scale and dosage forms • Profitable third party contracts • End-to-end service	• Experienced sales and marketing teams focused on clearly defined therapeutic areas • Expand into additional territories • Leaders in continuous education programmes for veterinarians	• Continue to grow sales and profit • Generate value by investing in the pipeline, maximising existing portfolio and expanding geographically	Pages 10–11
Risks	• Failure of clinical trials • Failure to meet regulatory requirements under which we operate • Loss of key personnel	• Failure of a major supplier • Failure to meet regulatory requirements under which we operate • Loss of key personnel	• Competitor products launched against one of our leading brands • Revenue from recently launched new products failing to meet expectations • Prescribing pressure on veterinarians to reduce antibiotic use • Loss of key personnel	• Mitigation plans are in place to reduce the potential impact of the identified risks on Shareholder value	Pages 46–47
Mid-term Priorities	• Manage four products in clinical phase • Complete filing on two major products • Evaluate new opportunities	• Drive ongoing efficiency improvements • Extend FDA approval into new dosage forms for the Skipton site • Implement Oracle IT system at the Bladel Site	• Establish Dechra subsidiaries in new territories • Further investment in US sales and marketing team as the pipeline delivers • Maintain organic growth of key products • Maximise the return on new product launches	• Sustain growth • Leverage strong balance sheet • Generate strong cash conversion	Pages 12–25
KPIs (pre-divestment of Services)	• Pharmaceutical product development pipeline • Employees	• Health and safety performance • Employees	• Revenue from key pharmaceutical products • Revenue from specialist pet diets • Employees	• Underlying operating profit margin • Cash conversion rate • Return on capital employed	Pages 38–39

Business Model

Dechra has a clear business model for delivering value:

- Our market knowledge, regulatory expertise, strong reputation and management experience helps us to identify potential product development targets, in-licensing and acquisition opportunities, focusing on specialist products in defined therapeutic areas.
- Our skilled Product Development and Regulatory team achieves international approvals and registrations.
- Manufacturing, which plays an integral part in the formulation and dosage form development, manufactures products as effectively and efficiently as possible.
- Following registration and manufacture of our products, experienced sales and marketing teams in the EU and US market our products directly to veterinary practices and indirectly through export partners to maximise awareness and sales of our products to veterinarians globally.
- This integrated approach of development, manufacturing and sales and marketing creates value for the business and its stakeholders.

Above:
Vetoryl for the US market is now manufactured in-house at DPM, Skipton



Strategy

Group Strategy

The Group has a clearly defined strategy to:

- Develop an international high margin, cash generative, specialist veterinary pharmaceuticals and related products business through a clear focus on key therapeutic areas: dermatology, analgesia and critical care, endocrinology, cardiovascular, equine and food producing animal antimicrobials.

Product Development and Regulatory Affairs

The strategy is to:

- Quickly and effectively evaluate the feasibility of development and registration of new products;
- Conduct trial work as cost-effectively as possible and in-house wherever possible; and
- Build on the team's skills, expertise and knowledge to ensure regulatory submissions have the optimum chance of achieving approval upon first review.

Manufacturing

The strategy is to:

- Provide technical formulation and development expertise to support in-house product development and third party customer requirements;
- Produce a wide range of dosage forms in both small and large scale; and
- Provide an end-to-end service with the highest levels of quality approval for our customers.

Pharmaceutical Sales

DVP EU

The strategy is to:

- Focus on clearly defined therapeutic sectors;
- Support and educate veterinary customers by taking a strong technical approach to sales and education and by gaining key opinion leader support; and
- Extend our sales and marketing capabilities into additional territories.

DVP US

The strategy is to:

- Focus on clearly defined therapeutic sectors within the companion animal market;
- Support and educate veterinary customers by taking a strong technical approach to sales and education and by gaining key opinion leader support; and
- Continue to develop and grow our infrastructure to create a sales and marketing team of sufficient scale to maximise current and future pipeline product sales across North America.

Value Generation

The strategy is to:

- Deliver maximum return from our integrated business model by:
  - Investing in a strong development pipeline;
  - Maximising sales and margin of our existing product portfolio; and
  - Extending our geographical scope.

The objective is to:

- Maximise value from our existing product portfolio and new product pipeline through an integrated business model which will deliver the maximum return to all stakeholders.

The objective is to:

- Screen exploratory ideas for suitability for addition to the pipeline;
- Conduct clinical trials and compile safety data where necessary and to provide regulatory dossiers for submission for approval to key global regulators; and
- Maintain existing product registrations and register licenses into new territories.

The objective is to:

- Produce our own branded, licensed products as effectively and economically as possible at the highest quality standard achievable; and
- Provide a high quality differentiated manufacturing service to third party customers.

DVP EU

The objective is to:

- Create a sales and marketing structure which maximises both the exposure of the Dechra brand and sales of its products to veterinarians within the EU; and
- Supply marketing and technical support to worldwide distributors of our products.

DVP US

The objective is to:

- Create a sales and marketing structure which maximises both the exposure of the Dechra brand and sales of its products to veterinarians within the US.

The objective is to:

- Continue to grow sales and profit by achieving our strategic objectives; and
- Generate value for all stakeholders.

Read more about KPI's 38
Read more about Risk 46

DVP EU Strengths and Capabilities

Tony Griffin
Managing Director

René Hogenkamp
Finance Director

Giles Coley
Sales and Marketing Director, Region I

Jan Jaap Korevaar
Sales and Marketing Director, Region II

What We Do

DVP EU markets and sells Dechra's veterinary products throughout Europe and exports to over 40 countries worldwide. The business has an operating board of six senior managers, and is managed from Bladel, the Netherlands, Sansaw, UK, and Uldum, Denmark. In total, DVP EU employs 318 people. Inventory is managed through a central distribution centre in Uldum, Denmark.

DVP EU has sales operations in 12 countries; Belgium, Denmark, France, Finland, Germany, Ireland, the Netherlands, Norway, Portugal, Spain, Sweden and the UK, each run by regional country managers. DVP EU also exports to other European countries such as Austria, Italy and Poland, and across the globe to Australia, Brazil, Canada, the Middle East and the Far East.

The key products in the DVP EU portfolio are predominantly companion animal products; however, with the acquisition of *Eurovet*, the range has expanded into the food producing animal market. During the year we have integrated the expertise and products from *Eurovet* and have continued to develop the Dechra brand across Europe. This drive to grow the brand will continue in the future with the launch of new products from the pipeline, an increased technical and educational programme, and expansion into new markets.

Our Market

Our customers are principally veterinarians; however, in some territories the route to market is through wholesalers and pharmacies. Our products are distributed through a mixture of our own direct sales, wholesalers and national distributor channels. When critical mass within a country is reached, and whenever financially beneficial, local sales operations are established. We look to build teams with local knowledge who can draw from Dechra's technical expertise across the Group.

Our Expertise

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

We have identified eight core therapeutic categories where we leverage our expertise: endocrinology, dermatology, ophthalmology, equine, cardiovascular, analgesia and critical care, diets/nutrition, and antibiotics for food producing animals. As well as novel products, DVP EU also produces generic products and specialist, therapeutic and maintenance pet diets.

Region I: Denmark, Finland, France, Norway, Sweden and UK
Region II: Belgium, the Netherlands, Germany, Portugal and Spain

"Our customers are principally veterinarians; however, in some territories the route to market is through wholesalers and pharmacies."

Carsten Jeppesen
Logistics Director Europe

Marie-Louise Mans
HR Director Europe

Above:
Canaural was first launched in 1975 and is now registered in 27 countries

Looking Forward

DVP EU is performing strongly in the three major European markets. The UK was the fastest growing EU market during the year, France and Germany also saw solid growth. DVP EU's export business is also expanding in markets around the world. In endocrinology, an important therapeutic sector, *Vetoryl*, *Felimazole* and *Forthyron*® are key growth drivers as we gain marketing approval in an increasing number of countries.

Other key products include the broad dermatology range, including *Fuciderm*®, *Malaseb*, *Canaural* ®and the *DermaPet* range. *Cardisure*, a generic product in DVP EU's cardiovascular category, shows significant potential, as does *Comfortan*®, a recently approved product, in the analgesic category. Over ten technical seminars were held to introduce *Comfortan* to veterinarians in the UK, a total of 865 veterinarians attended, demonstrating a strong interest in this product.

Across all territories the business is committed to developing new products and services that support the work of veterinarians. We will be expanding the Dechra brand through newly established subsidiaries within the EU and we will continue to develop our international presence through strong relationships with key partners.

DVP US Strengths and Capabilities

Mike Eldred
President, US Operations

Doug Hubert
Vice-President, Sales and Marketing

Dana Fertig
Veterinary Technical Services Manager

Nancy Zimmerman
Director of Marketing

What We Do

DVP US markets and sells Dechra's veterinary products across the USA, the world's largest animal health market. The business is strategically located in Kansas City, at the heart of the 'Animal Health Corridor', which is the world's largest concentration of animal health businesses.

Led by an operating board of four senior managers, DVP US comprises 42 employees, 26 of whom are field-based sales representatives responsible for around 1,000 clinics each. The rest of the team consists of marketing professionals, in-house veterinarians, field veterinarians, technical support staff and a customer service team.

Our Market

Our customers are primarily small animal and equine veterinarians, of which there are approximately 90,000, working in 26,000 clinics across the country. DVP US provides products that solve clinical problems and help veterinarians treat medical conditions, thereby building their business.

DVP US currently only markets companion animal and equine products; it is estimated that there are around 80 million dogs and 95 million cats in the US at present and pet ownership is increasing. The animal health market is approximately $15 billion, out of a total US spend of $50 billion on pets. Spending in the pet market is recovering since the decline seen in the recent global financial crisis. It is now beginning to build, with industry experts predicting an annual growth rate of 3% to 5%.

"Several products in the development pipeline will ensure the continued organic growth of our US business."

See Case Study on Continuing Education 37

Above:
DVP US provides products that solve clinical problems and help veterinarians treat medical conditions

In the US, veterinarians and clinics are primarily supplied through distributors. Our sales representatives promote and sell products directly, but also network and visit clinics together with these distributors. Becoming increasingly important are corporate pet hospitals, such as Banfield and Veterinary Centers of America ("VCAs") which are consolidating the market and delivering good growth.

Our Expertise

To increase knowledge of Dechra products to all key customers, technical Continuing Education ("CE") meetings, attended by veterinarians, are being leveraged. Product awareness and knowledge is established in a face-to-face environment, key opinion leaders and influencers then share their increased knowledge of Dechra's products to a wider audience.

The product portfolio of DVP US currently includes 11 NADA approvals (with 20 different package sizes) and 50 products that are non-regulated. We have niche market leading positions in veterinary endocrinology, veterinary dermatology and topical dermatology.

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

Looking Forward

Several products in the development pipeline will ensure the continued organic growth of our US business. Commensurate with this growth, we will continue to invest in the sales and marketing infrastructure to develop a stronger US presence and improved contact with veterinarians.

International Footprint

We currently have our own sales and marketing organisations in 12 Western European countries and in the USA. We also market products in over 40 countries worldwide through distributors and marketing partners. A number of these countries are currently being evaluated to assess the opportunity to extend our own sales and marketing capabilities thereby maximising margin return for the Group.

"The majority of our products are novel or have clear marketing advantages over competitor products."

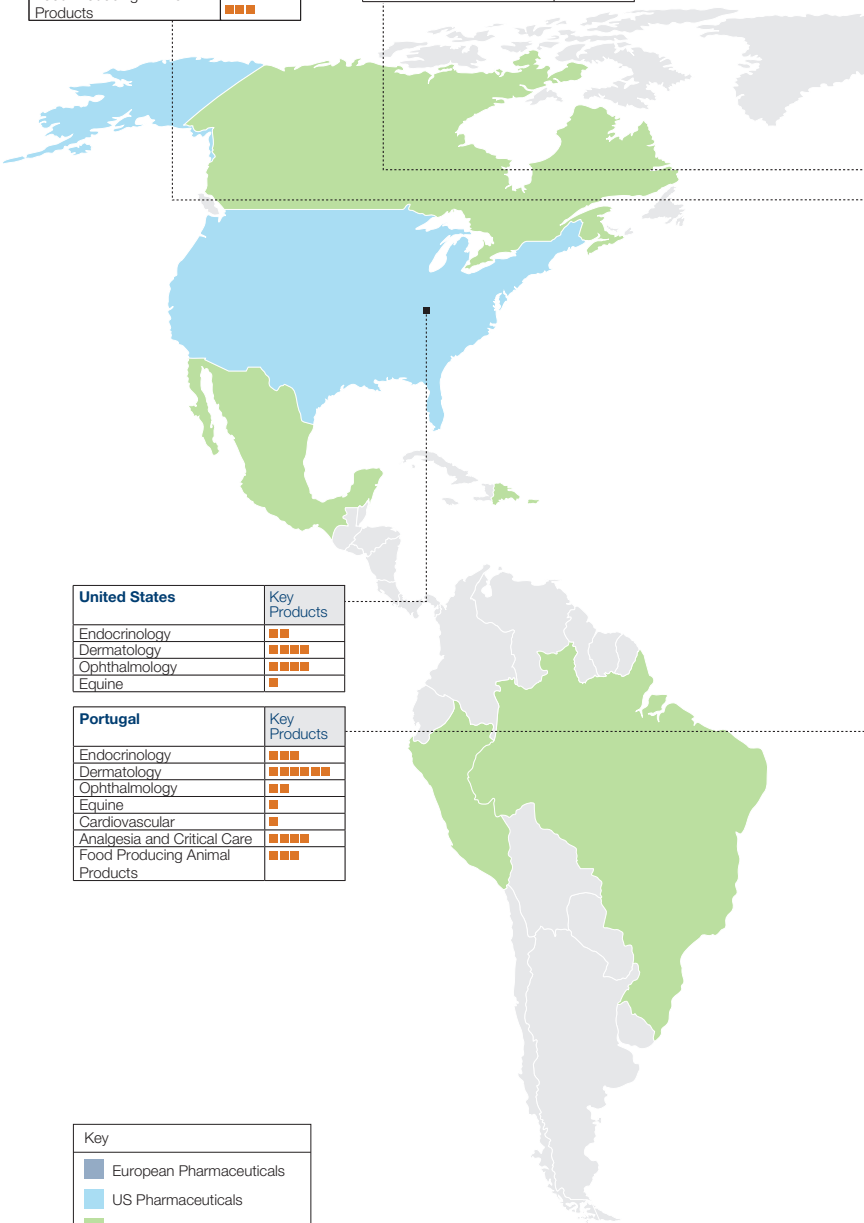
Read more about our **Key Products and Specialisations** 18

United Kingdom	Key Products
Endocrinology	■■■
Dermatology	■■■■■■■
Ophthalmology	■■
Equine	■■■■■■■■■
Cardiovascular	■■■■
Analgesia and Critical Care	■■■■■■
Food Producing Animal Products	■■■■■■■■■

Ireland	Key Products
Endocrinology	■■
Dermatology	■■■■■
Ophthalmology	■■
Equine	■■■■■■
Cardiovascular	■
Analgesia and Critical Care	■■■■
Food Producing Animal Products	■■■■■■

United States	Key Products
Endocrinology	■■
Dermatology	■■■■
Ophthalmology	■■■■
Equine	■

Portugal	Key Products
Endocrinology	■■■
Dermatology	■■■■■■
Ophthalmology	■■
Equine	■
Cardiovascular	■
Analgesia and Critical Care	■■■■
Food Producing Animal Products	■■■



The map below shows the number of key products in our focused therapeutic areas in territories where we have sales and marketing organisations.

Norway	Key Products
Endocrinology	■■
Dermatology	■■■■■■
Ophthalmology	■■
Equine	■
Cardiovascular	
Analgesia and Critical Care	■■■■
Food Producing Animal Products	

Sweden	Key Products
Endocrinology	■■■
Dermatology	■■■■■■
Ophthalmology	■■
Equine	■■■
Cardiovascular	
Analgesia and Critical Care	■■■■■
Food Producing Animal Products	

Finland	Key Products
Endocrinology	■■■
Dermatology	■■■■■■
Ophthalmology	■■
Equine	■■
Cardiovascular	■
Analgesia and Critical Care	■■■
Food Producing Animal Products	■■■

Denmark	Key Products
Endocrinology	■■■
Dermatology	■■■■■
Ophthalmology	■■
Equine	■■■
Cardiovascular	■■
Analgesia and Critical Care	■■■■■
Food Producing Animal Products	■■■■■■■ ■

Netherlands	Key Products
Endocrinology	■■■
Dermatology	■■■■
Ophthalmology	■■
Equine	■■■■
Cardiovascular	■■
Analgesia and Critical Care	■■■■
Food Producing Animal Products	■■■■■■■ ■■■■

Belgium	Key Products
Endocrinology	■■■
Dermatology	■■■■■
Ophthalmology	■
Equine	■■■
Cardiovascular	■■
Analgesia and Critical Care	■■■■
Food Producing Animal Products	■■■■■■■ ■■■

Spain	Key Products
Endocrinology	■■■
Dermatology	■■■■■■
Ophthalmology	■
Equine	■■■
Cardiovascular	■
Analgesia and Critical Care	■■■■
Food Producing Animal Products	■■■■■■■ ■

France	Key Products
Endocrinology	■■■
Dermatology	■■■■■
Ophthalmology	■■
Equine	■■■■
Cardiovascular	■■
Analgesia and Critical Care	■■■■
Food Producing Animal Products	■■■■■■■ ■■■■

Germany	Key Products
Endocrinology	■■■
Dermatology	■■■■
Ophthalmology	■■
Equine	■■■■■
Cardiovascular	■
Analgesia and Critical Care	■■■■
Food Producing Animal Products	■■■■■■■ ■■■

Key Products and Specialisations

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

Dermatology and Care

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

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

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

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

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

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.

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.

Ophthalmology

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

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

Additionally, we market a range of ophthalmic products in the USA. There are six products in the range, with the majority being the only veterinary licensed products in the US market. These products are currently unavailable due to third party supply issues; however, we anticipate relaunch in the 2013/2014 financial year.

Equine Medicine

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

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

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

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

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

Endocrinology

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

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

Forthyron is licensed to treat the most widely recognised endocrine disorder, canine hypothyroidism. It is the only mutually recognised levothyroxine treatment in Europe and is marketed in all the major European countries.

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

Analgesia and Critical Care

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

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

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

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

Sedator® is licensed for sedation, analgesia and anaesthetic premedication and contains the active ingredient medetomidine hydrochloride.

Other products in the range include *Buprenodale*® (buprenorphine), Ketamin (ketamine hydrochloride) and Plegicil (acepromazine maleate).

Key Products and Specialisations continued

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 expand our branded generic range within this territory.

Cardiovascular

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

Food Producing Animal Antimicrobials

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

Octacillin®, marketed since 2003 in the Netherlands, is sold in 15 European countries following approvals in 2006 and 2011. *Octacillin* is a highly soluble and stable antibiotic powder containing amoxicillin which is added to drinking water in the treatment of diseases in swine and poultry.

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

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

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

Pet Diets

Dechra has two main cat and dog diet product ranges, both branded *Specific*®, which are sold exclusively through veterinary practices. Therapeutic diets, which represent approximately 70% of overall diet sales, provide optimum levels of nutrition in areas such as diabetes, arthritis and urinary, kidney, liver and heart problems. Life stage diets, which represent approximately 30% of diet sales, provide premium quality daily nutrition for healthy dogs and cats.

Manufacturing Strengths and Capabilities

Mike Annice
Managing Director

Kirsty Ireland
Finance Director

Andrew Parkinson
Quality Director

Gareth Davies
Sales and Marketing Director

Chris Ashcroft
Operations Director

What We Do

Dechra Pharmaceuticals Manufacturing ("DPM") produces the vast majority of Dechra's pharmaceuticals and also manufactures for third parties on a contract basis. The key strategic objective of manufacturing is to efficiently and economically produce Dechra's veterinary pharmaceuticals product range, maintaining a robust and reliable supply chain for the Group, and to contribute revenue and profit to the Group from third party manufacturing.

Our Sites

After the *Eurovet* acquisition, DPM operated out of three sites based in Skipton, England, Bladel, the Netherlands, and Uldum, Denmark. Since then, the focus of DPM has been to integrate the sites, ensuring their processes and reporting are consistent so that the most effective manufacturing capabilities are available to DPM's internal and external customers. The small site at Uldum will be closed by the end of the 2013 calendar year, as part of this restructuring with its two key products being transferred to Skipton. The Skipton and Bladel management teams have worked closely together to pool their skills and technical capabilities to standardise procedures and improve quality systems across the Group.

Work has also been ongoing in improving the lean processes and to introduce a standard ERP system across the whole of DPM.

Skipton

The site at Skipton employs 215 people, and offers a comprehensive range of pharmaceutical manufacturing and packing services, predominantly for companion animals. The site is dual-licensed to produce both veterinary and human products. The site includes a Pharmaceutical Development Laboratory, a Routine QC (Quality Control) Laboratory and a Stability Testing and Validation Laboratory; these play a significant part in the new product development programme and are necessary for new product introductions.

Bladel

The site at Bladel, acquired as part of *Eurovet*, employs 120 people. The operation complements the existing Dechra capabilities; the site predominantly manufactures products for food producing animals in large scale batches. This site also has an aseptic manufacturing facility to produce sterile injections, a new competence in DPM's manufacturing portfolio.

Above:
Dechra Pharmaceuticals Manufacturing, Skipton

Above:
Dechra Pharmaceuticals Manufacturing, Bladel

Manufacturing Strengths and Capabilities continued

"DPM will continue to support new product development and the increasingly important product pipeline."

Our Expertise

DPM's primary expertise is its ability to perform a wide range of services which delivers the flexibility that the veterinary market requires and provides a one-stop shop for its external customers. Furthermore, it offers a wide range of dosage forms and packaging capabilities and also supports the Group with the Pharmaceutical Development Laboratory which is integrated and aligned with our manufacturing capabilities.

One-stop Shop

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

Production Capabilities

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

Above:
Autoclave trolley in the injection suite, DPM, Skipton

Product Development

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

Contract Manufacturing

In addition to manufacturing our own products, both Skipton and Bladel generate income through contract manufacturing. Although the clear focus is on Group manufacturing, we still seek to increase our third party sales; currently approximately 50% of Skipton's and approximately 10% of Bladel's output by value is contract manufacturing. The external offering includes product development, formulation, trial manufacturing, validation, production and packaging for both human and veterinary pharmaceuticals.

Looking Forward

Over the coming years the in-house production strategy will continue. There are currently no significant capacity constraints; therefore, we will continue to pursue profitable third party business. DPM will continue to support new product development and the increasingly important product pipeline. Manufacturing will also continue to maximise effectiveness and efficiency and improve productivity whilst constantly adapting our quality, health and safety and environmental systems.

Product Development

Dr Susan Longhofer
Group Director, Product Development and Regulatory Affairs

Rob Joosten
Product Development and Regulatory Affairs Director

Product Development and Regulatory Affairs

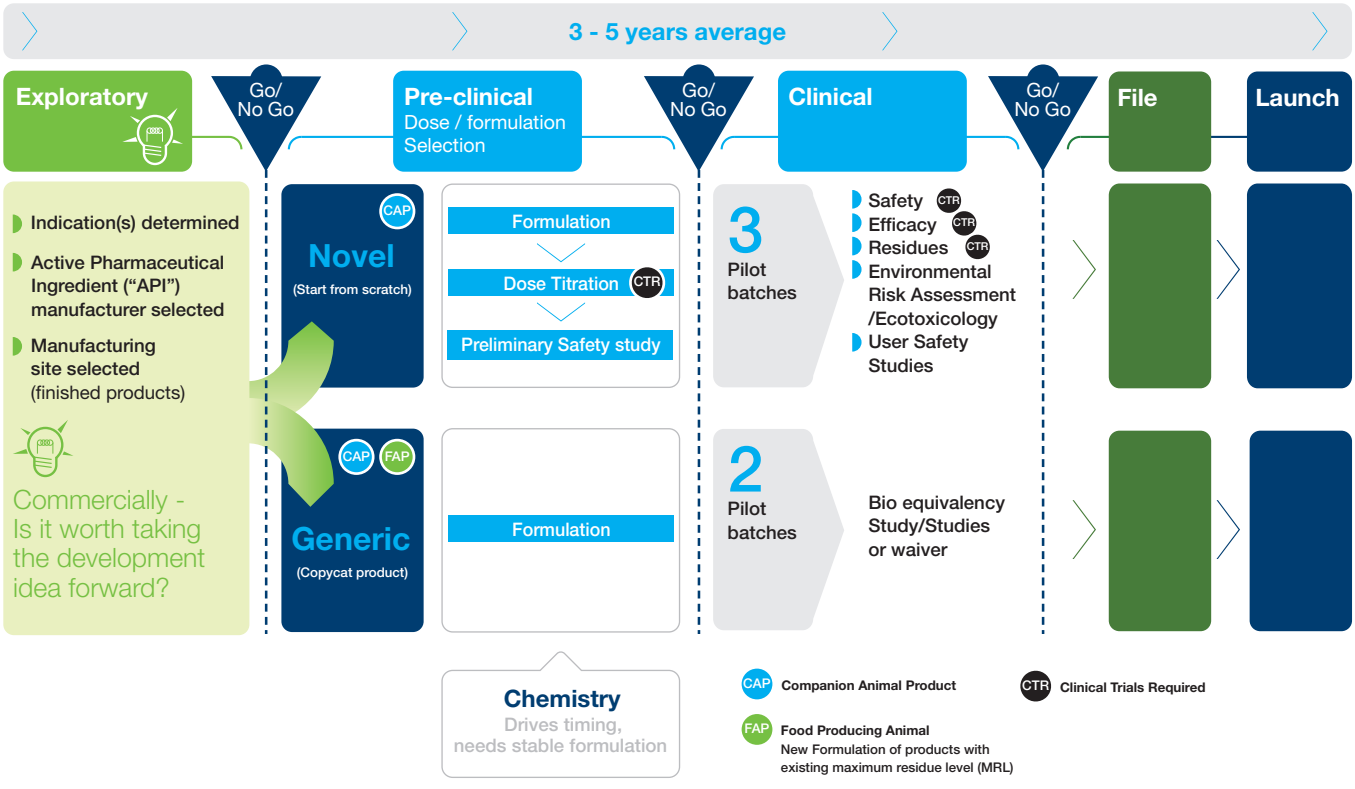
The Product Development and Regulatory Affairs ("PDRA)" team develops and licenses Dechra's own branded veterinary product portfolio of novel and generic pharmaceuticals. Additionally, the team manages post-approval adverse event reporting, periodic product renewals and other activities required to maintain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

The team of 52 people are split into European Regulatory Affairs, US Regulatory Affairs, Pharmaceutical Development and Product Development. They work at four locations: Overland Park, USA, Sansaw, England, Skipton, England, and Bladel, the Netherlands. The team includes veterinarians, formulation chemists, pharmacists, analysts, clinical trial managers and product development managers.

Product development process

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

Dechra employs a structured process in its development pipeline however retains an opportunistic and entrepreneurial approach. Focus is given to the Group's therapeutic specialisations: endocrinology, equine medicine, analgesia and critical care, cardiovascular, ophthalmology, and antimicrobials for food producing animals. New development opportunities and in-license opportunities are evaluated for strategic fit within these categories; therapeutics outside of the key areas are considered for inclusion in the pipeline if they



Product Development continued

are novel and address unmet needs in the veterinary market.

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

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

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

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

From beginning to end, this process takes on average between three and five years.

Our Expertise

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

We believe our integrated and entrepreneurial approach to product development successfully delivers new products effectively and efficiently in the shortest possible time frame.

"We believe our integrated and entrepreneurial approach to product development successfully delivers new product effectively and efficiently in the shortest possible time frame."

Above:
Dechra Development Laboratory at DPM, Skipton

Product Pipeline

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

Low Risk Strategy

There are various stage gates throughout the life of a development project where progress is reviewed and decisions are taken on whether to continue or not. Development is inherently risky and our stepped approach mitigates the risk of a costly failure.

Wide Range of Projects

In addition to the projects shown below, there are several other exploratory projects, line extensions, territory expansions and life cycle management projects. There is also an ongoing programme that renews and redevelops the *Specific* range of pet diets.

Key Projects

Therapeutic Category	Species	Territory	Manufacturing	Pre-clinical	Clinical	File	First Expected Launch
Endocrinology	Dogs	International	In-house		•		2015
Endocrinology	Cats	International	Outsourced		•		2017
Endocrinology	Dogs	EU	Outsourced			•	2014 (UK)/ 2016 (EU)
Equine	Horses	International	Outsourced		•	•	2014 (UK)
Dermatology	Dogs	International	In-house	•			2017
Dermatology	Dogs	International	In-house	•			2017
Ophthalmology	Dogs	International	Outsourced	•			2017/2018
Cardiovascular	Dogs	EU	In-house	•			2017
Antimicrobials	Cattle	EU	In-house		•		2016
Antimicrobials	Several	EU	In-house			•	2015
Antimicrobials	Poultry	EU	In-house			•	2016

Future Value

The expected revenue from these projects at peak is estimated to be circa £35 million. It takes approximately four to five years after launch for a product to reach peak sales.

Chief Executive Officer's Q&A

Your questions answered with Ian Page, Chief Executive Officer

Q

Why did Dechra decide to sell the Services businesses?

The Group strategy has been clear for several years; to develop a high margin, cash generative veterinary pharmaceutical and products business. Within this strategy there is clearly no place for the Services businesses. Historically, the Services businesses were the strongest part of the Group both in terms of turnover and profit, but as the years have progressed, and we have developed our pharmaceutical business, that contribution has diminished.

What actually triggered the transaction was a firm offer from Patterson. Patterson have a sole focus on Services; we believe that they will secure the future of the staff within the Services businesses and also continue to excel in performance at providing high levels of service to customers. So these factors, along with the firm offer, meant that we believed it was a strong win-win position for both parties.

Q

How does the sale of the Services businesses impact Group strategy going forward?

The Group strategy has not changed at all. If anything, the sale of the Services businesses has allowed us to have an even clearer focus on our core strategy; furthermore, the proceeds of the sale have strengthened our balance sheet considerably. The consequences of which are that we now have the capabilities to look at further acquisitions if they become available to us in the future, and also we are able to put a little bit more investment in our product development pipeline, which will strengthen the opportunities for future growth.

Q

Has the *Eurovet* integration progressed according to plan and has it fulfilled all your expectations?

It has definitely fulfilled our expectations. It has extended our geography, particularly into Germany; strengthened our companion animal product portfolio; enhanced our manufacturing capabilities and also moved us into the livestock sector, which is a very important area for us to be involved in, as we look at our international expansion opportunities.

In terms of the integration, it has delivered all the expected synergies to date of both revenue and cost nature; we expect it to continue to deliver further revenue synergies over the next couple of years.

Q

When will the product development pipeline start to deliver significant new products?

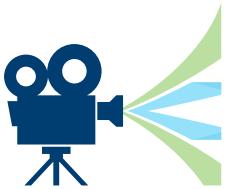
The product pipeline has actually delivered products year on year now for several years, both pharmaceuticals and diets. The next major product was expected to be an equine lameness product but unfortunately this was delayed due to third party contract manufacturing issues. However, we have now resolved the issues and we expect the product to appear within the next 12 months within one or two major territories. Behind that, there is an extensive list of novel products that we have in development, so hopefully we should see at least one of these products appearing per year from 2014 onwards.

Q

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

The world's animal health markets are continuing to show growth. The companion animal markets remain strong in North America and Western Europe, and the livestock markets continue to increase in the developing world where there is a high demand for animal protein. So overall we are in a very strong position to deliver good organic growth with our existing portfolio but additionally, as I have already outlined, we have a very strong product development pipeline which will enhance that growth. We are looking at new countries to establish a presence; global expansion is high on our agenda; furthermore, with our strong balance sheet, we will hopefully be able to find one or two acquisitions to bolster the Group as a whole. So, all in all, we are in a very strong position to cement ourselves as one of the top ten global animal health companies.

Developing
Focusing
Delivering



Watch the Online Video
www.dechra.annualreport2013.com

Web link for your convenience

Operating Review
Overview

The sale of the Services business is a significant step forward in achieving our clearly defined strategic objective.

Introduction

Strategically it has been a momentous year with the successful integration of *Eurovet*, acquired in May 2012, and with the transformational effect of the divestment of the Services businesses. Dechra is now entirely focused on developing, manufacturing and marketing high margin, cash generative veterinary pharmaceuticals and related products across global markets. From a trading perspective, a strong first half performance was partially offset by a poor third quarter, impacted by adverse weather and ongoing third party supply problems within the US. However, trading remained robust, with our key branded in-house manufactured products performing strongly.

The acquisition of *Eurovet* has fulfilled our expectations. It has expanded our geographical coverage, especially in Germany; enhanced our manufacturing capabilities; added complementary products to our companion animal portfolio and provided an entrance into food producing animal pharmaceuticals. The food producing animal sector is particularly important as we look at opportunities to expand internationally. The companion animal market is not sufficient in scale in many countries outside of the EU and North America to merit our own presence solely with our current specialist product portfolio. Furthermore, the ever increasing demand for high quality meat protein from emerging markets is creating a strong global livestock market. Further details of the *Eurovet* integration are provided within the EU Pharmaceuticals Segment review.

Ian Page
Chief Executive Officer

The sale of the Services businesses, National Veterinary Services ("*NVS*"®) and the Laboratories, is a significant step forward in our clearly defined strategic objective of developing an international specialist veterinary pharmaceuticals business. Historically, the strong cash generation of *NVS* has helped to fund the growth of the Pharmaceuticals Segments. However, as the years have progressed, the Pharmaceuticals Segments have gained sufficient critical mass to fund their own development and the Services businesses became strategically less and less relevant year on year. The businesses have been sold to Patterson Companies, Inc. for £87.5 million on a debt free, cash free basis.

The Board believes this is a fair valuation for businesses that have experienced increasing margin pressure over recent years as the customer base consolidates with the growth of corporate veterinary practice groups. We also recognise that Patterson is an ideal company to secure the future of the staff and take the businesses forward.

"Eurovet has fulfilled our expectations and provided an entrance into food producing animal pharmaceuticals."

Operating Review continued
Product Development and Regulatory Affairs

Product Development
The product development pipeline continues to deliver:

1. new products for global markets:
- *Methoxasol*, an antimicrobial for swine and poultry has been approved in the EU;
- *Buprenodale*, a multi-dose small animal analgesic, has received authorisation throughout the EU; and
- Anesketin, a generic companion animal sedative, has been approved in seven EU countries.

2. line extensions:
- *Soludox*, our water soluble antibiotic for swine and poultry, has a new indication for turkeys in the EU;
- *Felimazole* 1.25mg, a new low dose strength to increase dosing options has been approved throughout the EU; and
- *Comfortan*, a companion animal analgesic has received an extension to its approval for use in cats.

3. registrations in new territories:
- *Libromide*, used in the treatment of canine epilepsy, has had its EU registration extended into France, Austria, Portugal and Switzerland;
- *Felimazole*, for feline hyperthyroidism, has been approved in Australia; and
- *Vetoryl*, for the treatment of canine Cushing's syndrome, has been approved in South Korea, Brazil and New Zealand.

The *Methoxasol* and *Soludox* registrations extend our portfolio of food producing animal antimicrobial products which will provide new opportunities in this competitive market. The *Comfortan*, *Buprenodale* and Anesketin approvals give us the widest and most complete range of analgesics and sedatives of any animal health company within the EU. This further strengthens our position as a market leader in critical care. The *Felimazole* 1.25mg registration increases dosing options which allows veterinarians to better manage feline hyperthyroidism where each cat requires its own specific dosing regime. The introduction also further differentiates us from a generic version of the drug which has recently been launched in a number of EU territories.

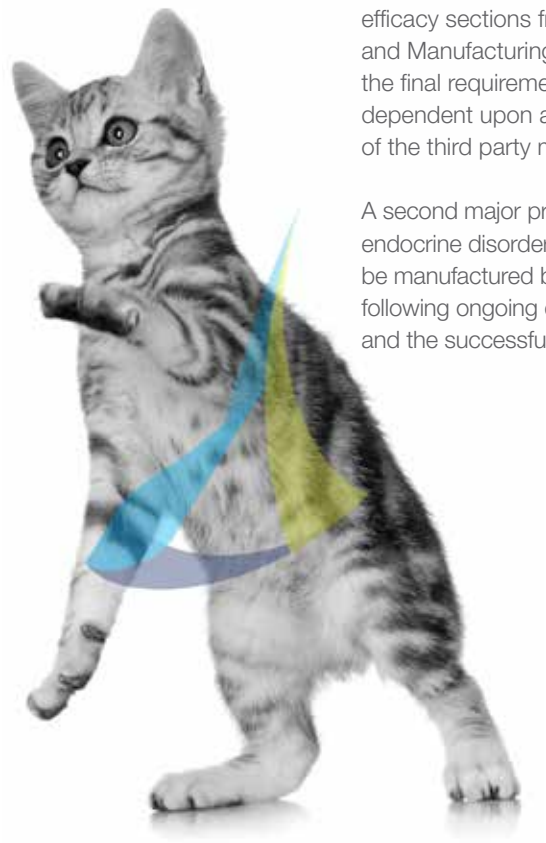
There has been material progress on our novel product pipeline. We have previously reported that the first major product launch, an equine lameness product, to be branded *Osphos*®, had experienced delays due to an enforced change to a new third party manufacturer. We anticipate making a submission for registration of this product in the UK, Canada and Australia imminently. As the horse, in the majority of the EU, is classed as a food producing species we are currently

"There has been material progress on our novel pipeline."

Read more about our Product Pipeline 25

Above:
Dechra is now entirely focused on developing, manufacturing and marketing high margin, cash generative veterinary pharmaceuticals and related products across global markets

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



conducting work to establish a maximum residue level prior to submission for approval throughout the rest of Europe. In the US the product already has complete safety and efficacy sections from the FDA. The Chemistry and Manufacturing Controls ("CMC") section, the final requirement for the US submission, is dependent upon a successful FDA inspection of the third party manufacturing site.

A second major product, for a canine endocrine disorder, was originally intended to be manufactured by a third party. However, following ongoing external supply problems and the successful FDA approval of our own site in Skipton for solid oral dosage forms, a strategic decision was made to invest in manufacturing in-house wherever possible. The necessary equipment has been acquired and validated at our Skipton site and the pilot batch has been manufactured. The clinical trial is at an advanced stage with all the dogs now enrolled and initial results are very positive.

There are an additional six novel products in the development pipeline, three of which have long term patent protection: four novel products are for the global market and two are targeted specifically at the EU. There are also three major differentiated generic products for food producing animals under development. A potential twelfth product is at an advanced stage of assessment for inclusion in the programme.

We anticipate a further two clinical trials to commence within the new calendar year.

In addition to the novel products in development we have several generics, territory expansion and range extending products in development. Furthermore, we have a number of exploratory ideas to pursue.

Operating Review continued
European Performance

European Pharmaceuticals
Revenue from this segment increased by 61.0% (66.3% at constant currency) compared to last year. On a like-for-like basis, including the contribution from the *Eurovet* business, revenue grew by approximately 5%.

DVP EU
The initial objectives of the integration of *Eurovet* have been achieved within the year:

- Closure and restructuring of duplicate sales and marketing offices and teams in the UK, Benelux and Denmark;
- Dechra products launched in Germany through the newly acquired subsidiary with a smooth transition and retention of market share following the termination of the prior distribution agreement;
- The majority of the *Eurovet* companion animal products have been transferred to Dechra's own sales organisation in France;
- *Eurovet*'s major swine and poultry products have been launched for the first time in France;
- All *Eurovet* products have been transitioned ready for launch into Norway, Finland and Sweden in the first quarter of the new financial year;
- Manufacturing rationalisation is underway, further details of which are provided later in this report; and
- Management teams have been successfully integrated creating a new operating board.

This first phase of integration has progressed in line with our strategy and is delivering the expected cost and revenue synergies.

Despite a very slow third quarter following the prolonged bad winter weather, pharmaceutical sales for the full year increased by approximately 5% on a comparable basis. There were big variations in performance on a territory by territory basis with the UK, France, Germany and Iberia performing well, and the Netherlands and Nordics underperforming. The underlying performance of our key strategic licensed veterinary products was robust. Our own branded pharmaceuticals grew by 5.1% at constant currency; growth was delivered across all key therapeutic sectors. Food producing animal antibiotic usage remains under review in a number of EU markets due to concerns regarding antimicrobial resistance; however, we still saw overall growth in this sector in all markets other than Belgium and the Netherlands. Our *Specific* pet diets grew by 2.6% at constant currency; this growth was assisted by the relaunch of a new presentation of our wet diet range and also by the introduction of a new intensive support diet for animals in rehabilitation post-surgery.

As the enlarged product portfolio now has three areas of focus, food producing animal products, companion animal products and companion animal diets, a new strategy has been developed to give the sales and marketing teams across Europe clear direction. In our key therapeutic areas, where Dechra has a substantial market position, a strong reputation and an in-depth knowledge and expertise have been better defined and prioritised. Clear focus on these therapeutic sectors will allow us to target our marketing support and provide sales team prioritisation and also provide a structure to support key pipeline products which fit into these therapeutic segments. Two distinct marketing teams have been created, one focusing on food producing animal and equine products, the other on companion animal products and diets. We are already seeing the benefits of improving the alignment of diets with companion animal pharmaceuticals. Our allergy diet range was promoted as part of a dermatological campaign, one of our key therapeutic categories, which resulted in strong sales growth. Furthermore, a key account management structure has been implemented to focus on swine, poultry and equine as the veterinarians within these sectors have become very specialised and work increasingly in a concentrated number of practices.

"As the enlarged product portfolio now has three areas of focus, food producing animal products, companions animal products and companion animal diets, a new strategy has been developed to give the sales and marketing teams across Europe clear direction."

Read more about our International Footprint 16

Case Study

Felimazole European Marketing Campaign

Felimazole was the first veterinary licensed product for the treatment of feline hyperthyroidism. Originally licensed in the UK in 2002, it has since been approved in the EU, US and Canada, becoming a key Dechra product. However, the feline hyperthyroidism market is now highly competitive, with Dechra's market share coming under pressure from alternative products.

In order to protect and strengthen Dechra's position in this market, an international marketing campaign has been commissioned to reposition *Felimazole*. The objective is to highlight the benefits of *Felimazole* creatively through emotionally engaging communications, and to position Dechra as the European expert in endocrinology.

The campaign's theme reflects the key benefit of the product, namely restoring balance to a cat by flexible dosing options. By visualising this in dramatic imagery, the campaign draws attention to the positive effects that *Felimazole* can have on the hyperthyroid cat and demonstrates that the poise and precision that hyperthyroidism can take away, can be restored.

The integrated campaign delivers a range of support for the veterinarian, pet owner and sales teams. It includes awareness generating press and banner advertising, flowcharts for diagnosis and treatment, sales aid, booklets and a loyalty pack. Key opinion leader-written case studies, articles and Academy learning will follow.

The campaign will be launched in Germany and the UK in September, with France, the Netherlands, Belgium, Spain and the Nordics to follow in January 2014.

Above:
New *Felimazole* marketing material

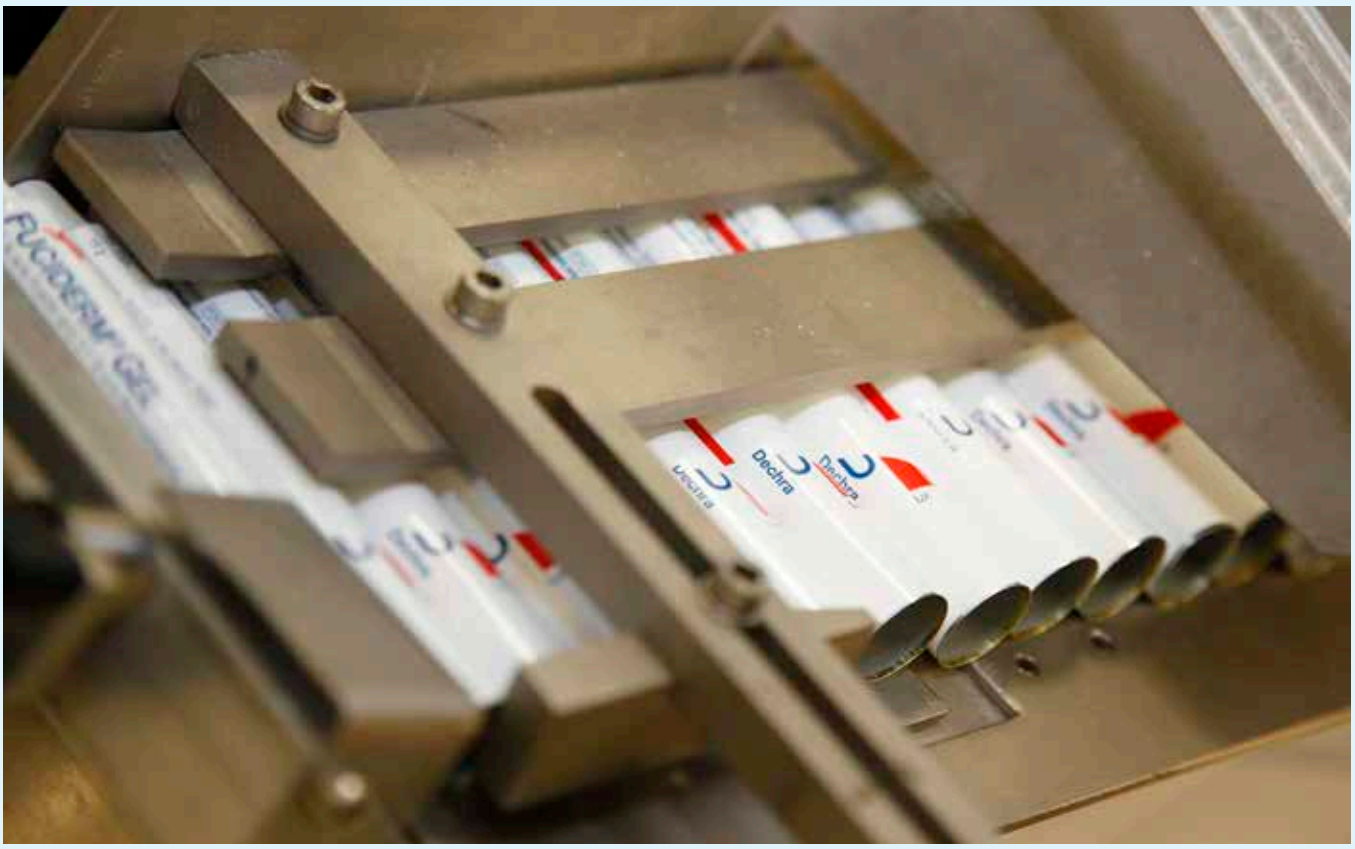
Operating Review continued
European Performance continued

Manufacturing

Following the *Eurovet* acquisition our manufacturing sites were rebranded as Dechra Pharmaceuticals Manufacturing. After a detailed review of our capabilities following this acquisition, it was decided to close the manufacturing facility in Uldum, Denmark. This site only produced two major prescription products which have now been successfully transferred into Skipton. The care range of unlicensed products, previously manufactured at the site, are now being outsourced to a third party supplier. This site will be closed prior to the end of the 2013 calendar year. We are also in the process of transferring two *Eurovet* products, which were previously manufactured by a third party, into the Skipton tableting facility. Once the transfer of these products is complete, the full manufacturing synergies identified prior to the acquisition will be delivered. The manufacturing management teams of both businesses have been fully integrated and programmes to standardise IT systems and GMP compliance systems are progressing well. Further efficiencies are also being delivered; significant yield improvements have been achieved and batch failure rates have halved. Furthermore, there has been a year on year improvement in accident rates with no reported RIDDOR's in the last 12 months.

Third party contract manufacturing continues to perform strongly with an increase in external sales of 12.5% at constant currency year on year. We continue to have a high level of new external contract manufacturing business enquiries.

"Third party contract manufacturing continues to perform strongly."



Above:
Fuciderm manufactured at DPM, Skipton

Case Study

New Sterile Endocrine Product Manufactured In-house

The Suspension is a new sterile injection product, developed for use in the treatment of Canine Hypoadrenocorticism (Addison's disease). It is unique within the European market and has clear benefits over the daily tablet formulation used to treat the condition.

The product was developed by Dechra's Pharmaceutical Development Laboratory but was outsourced to an external manufacturer based in Swindon, UK. At the time, our injections facility was in need of significant refurbishment and we believed that outsourcing manufacturing to a facility that had an existing FDA approval would be the quickest way to get the product to market. The contractor produced three product registration batches in December 2011, but soon after decided to cease operations at the site. Rather than outsourcing to another contractor Dechra decided to bring the product into Dechra Pharmaceuticals Manufacturing's Skipton site. In the time that had elapsed, the injection facility had gone through a major refurbishment and we had also gained FDA approval for our solid dose manufacturing suite. Therefore, we had the confidence in our capabilities to take the refurbished injection suite through the necessary approval process.

Above:
Sterile Injectable Suite at DPM, Skipton

The unexpected change in manufacturing site actually resulted in several benefits for Dechra. Manufacturing in-house lowers the cost of producing the product and increases the margin on all future sales. Additionally, improvements were identified to optimise the production process which would not have been possible externally.

Finally, while Skipton's injectables suite had recently been refurbished, including a new autoclave, the decision to bring the product in-house necessitated this investment. This has enhanced the site's capability for both internal and external customers and has contributed towards the ultimate aim of having global approval of the Skipton site for all dosage forms.

Operating Review continued
US Performance

US Pharmaceuticals

Revenue from this Segment delivered growth of 4.7% in the year, hampered by third party supply issues with the ophthalmic and dermatological ranges. Third party supply problems for our leading dermatological product, Animax, persisted throughout the year and an enforced change to a new API supplier resulted in a complete out of stock situation. Every effort is being made by our supplier to produce the validation batches required to submit a variation for the change in API supplier. It is possible that the product could be back in production for the end of our current financial year. As the product is clinically unique it is considered that we should be able to recover the majority of historic sales once Animax becomes available again.

We had also anticipated that at least one of our licensed veterinary ophthalmic products would have been back in production within the financial year being reported. However, the review period by the FDA was longer than expected and we still await approval for the change in manufacturer. If we are successful in this first round review by the FDA, products should be available for marketing within the first half of the financial year ending June 2014. If a second round review is required, the relaunch will be extended into the third or fourth quarter.

The underlying performance within the US remains strong with our key products, *Vetoryl* and *Felimazole*, growing by 11.6% and 16.3% respectively. We continue to increase our reputation in the US with an ongoing educational programme on the conditions which our key products treat; within the year we held almost 100 meetings with over 3,300 veterinarians in attendance. We have continued to strengthen our sales team and have also appointed a new director of marketing, Nancy Zimmerman, who is already having a positive impact.

In December 2012 we completed an agreement to in-license three new companion animal products: *A-Cyst*, *Polyglycan* SA and *PolyChews*. None of these products will make a material impact; however, they complement our existing range of specialist companion animal products and will make a contribution to the growth of our US business. Development continues on the new in-licensed generic product outlined in the Half Yearly Report. Following an initial review by the FDA, it is unlikely this product will receive registration in the 2013/2014 financial year.

"The underlying performance within the US remains strong with our key products, Vetoryl and Felimazole, growing by 11.6% and 16.3% respectively. "

Above:
The US animal health market is approximately $15 billion, out of a total US spend of $50 billion on pets

Case Study

Technical CE Meetings

DVP US organises technical continuing education ("CE") meetings which are centred around the education of veterinarians in terms of recognising, diagnosing, treating and managing diseases. The meetings are designed to improve awareness of Dechra and instil the message that Dechra is a company with state-of-the-art products, technical knowledge and a commitment to supporting the veterinary community.

The meetings are an ongoing series of dinner seminars, with around 150 held each year across the US. Some of these events are organised by the Veterinary Medical Association ("VMA") and are hosted by Dechra veterinarians. They feature guest speakers including experts and key opinion leaders, such as specialists and university veterinary clinicians who are respected leaders in their discipline. Dechra also sponsors evenings that do not feature a Dechra speaker, when they cover topics pertinent to our products. This gives Dechra independent, third party support and adds to the Company's reputation.

From a strategic point of view, these evenings are an inroad to markets DVP US is targeting, and ensures attendees are aware of Dechra products and how to use them as their first choice treatments. The seminars are RACE ("Registry for Approved Continuing Education") approved, meaning that veterinarians gain educational credits for attending, as well as increasing their knowledge on diseases and treatments.

On average Dechra-led seminars are attended by over 500 veterinarians a year, with this figure rising significantly when Dechra-sponsored evenings are held at major veterinary congresses. Since *Vetoryl's* launch in 2008 it is estimated around 4,000 veterinarians have attended a seminar specific to this product which supports the momentum DVP is currently building in the US.

Above:
Within the year DVP US held almost 100 meetings with over 3,300 veterinarians in attendance

Group Information Technology

Following the appointment of a new Group IT Director on 2 April 2012 a new Group IT strategy has been defined and implemented. The essence of the proposed strategy, which commenced in August 2012, is to standardise applications and hardware across the Group and to implement a network and infrastructure to support the implementation of the Oracle ERP project. The second phase of the Oracle implementation is progressing well with Bladel manufacturing expected to go live in the second quarter of the new financial year. Future roll outs will include our European and US subsidiaries as well as Group consolidation.

People

Anne-Francoise Nesmes was appointed to the Board as Chief Financial Officer on 22 April 2013. She joined the Group and the Board from GlaxoSmithKline PLC ("GSK"). Anne-Francoise is a high calibre finance professional with international pharmaceutical, manufacturing and commercial experience.

Tony Griffin, formerly Chief Executive Officer of the AUV Group, was appointed as a Director of Dechra on 1 November 2012. Tony has played a key role in the integration of the *Eurovet* business into Dechra. In addition to his PLC Board responsibilities Tony's principal responsibility is his role as the Managing Director of Dechra Veterinary Products Europe ("DVP EU").

Two new Independent Non-Executive Directors were also appointed to the Board. Julian Heslop commenced his role on 1 January 2013 and Ishbel Macpherson on 1 February 2013. Julian served as Chief Financial Officer of GSK between 2005 and 2011, having previously held senior roles in both GSK and Grand Metropolitan PLC. Ishbel currently holds a number of Non-Executive roles and has previously had 20 years' experience as an investment banker specialising in mid-market corporate finance.

Neil Warner has confirmed his intention to stand down as a Non-Executive Director at the forthcoming Annual General Meeting. I would like to take this opportunity to thank Neil for his commitment to Dechra over the past ten years and wish him well in his future. Neil is also our Senior Independent Director and Chairman of the Audit Committee. On his retirement from Board Ishbel Macpherson will be appointed as the Senior Independent Director and Julian Heslop as the Chairman of the Audit Committee.

Operating Review continued

Key Performance Indicators ("KPIs")

Financial

Strategic element	KPI	Method of calculation	Target Prior to the Disposal of the Services Segment
Manufacture, Commercialise, Shareholder Return	**Revenue from key pharmaceutical products**	Global revenue from our top five products	To achieve annual revenue growth of at least 10%
Commercialise, Shareholder Return	**Revenue from specialist pet diets**	Global revenue from the *Specific* brand of pet diets	To achieve annual revenue growth of at least 6%
Manufacture, Commercialise, Shareholder Return	**Underlying operating margin before product development cost**	Underlying operating profit before product development expenditure expressed as a percentage of Group revenue	To achieve an underlying operating margin before product development costs of 10% in the medium term
Innovate, Manufacture, Commercialise, Shareholder Return	**Cash conversion rate**	Cash generated from operations before tax and interest payments as a percentage of operating profit before amortisation of acquired intangibles	To achieve an annual cash conversion rate of at least 100%
Innovate, Manufacture, Commercialise, Shareholder Return	**Return on capital employed ("ROCE")**	Underlying operating profit as a percentage of average operating assets utilised. Operating assets exclude cash and cash equivalents, borrowings, tax and deferred tax balances	To achieve a return on capital employed which exceeds the pre-tax weighted average cost of capital of the Group ("WACC")

Non-financial

Strategic element	KPI	Method of calculation	Target
Innovate	**Pharmaceutical product development pipeline**	Number of products from the pipeline or in-licensed into at least one major territory with long term revenue potential of at least £0.5 million	One new diet or range extension launched in the EU, two new pharmaceuticals, each launched in at least one key market
Innovate, Manufacture, Commercialise	**Health and safety performance**	Lost Time Accident Frequency Rate ("LTAFR"): all accidents resulting in absence or the inability of employees to conduct the full range of their normal working activities for a period of more than three working days after the day when the incident occurred normalised per 100,000 hours worked	Zero preventable accidents
Innovate, Manufacture, Commercialise, Shareholder Return	**Employees**	Employee turnover calculated as number of leavers during the period as a percentage of the average total number of employees in the period	Moving Annual Turnover ("MAT") rate of less than 15%

Historically we have measured a number of financial and non-financial key metrics in order to monitor our progress and assist in the achievement of our strategic plan. Following the recent disposal of our Services Segment it is the Senior Executive Teams intention to review the key performance indicators in order to ensure that we can adequately monitor and manage the progress of our strategy.

2013 Performance	Five Year Record	Read More
The KPI was exceeded during the year with a growth rate of 12.6% (15.9% at constant currency) being achieved. *Vetoryl* and *Felimazole* grew particularly strongly	2013 £44.0m 2012 £39.1m 2011 £33.2m 2010 £29.4m 2009 £23.6m	⟩ Page 40
On a reported basis, diets declined by 0.9%. However, we have seen a growth of 2.6% at constant currency	2013 £27.9m 2012 £28.1m 2011 £27.6m 2010 £25.6m 2009 £22.7m	⟩ Page 41
Further progress towards the medium term target was made driven by the increasing proportion of revenue achieved from pharmaceutical products	2013 11.5% 2012 9.9% 2011 9.5% 2010 8.9% 2009 8.1%	⟩ Page 42
Cash conversion achieved over 100% during 2013 due to strong performance from the Pharmaceuticals Segments	2013 107.0% 2012 91.7% 2011 82.8% 2010 100.8% 2009 112.5%	⟩ Page 44
ROCE is significantly ahead of the Group's WACC although it reduced slightly in absolute terms due to the *Eurovet* acquisition	2013 17.7% 2012 20.6% 2011 21.6% 2010 22.6% 2009 9.4%	⟩ Page 45

2013 Performance	Five Year Record	Read More
One new diet product has been launched during the year in the EU. Nine new pharmaceutical registrations have been achieved in to a number of territories across the EU	2013 10 products 2012 6 products 2011 6 products 2010 6 products 2009 5 products	⟩ Page 30
There has been a reduction in the total number of accidents during the year from 10 to 5. 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 84 to 89	2013 0.22 2012 0.55 2011 0.82 2010 0.75 2009 0.94	⟩ Page 86
The MAT decreased from last year's 16.10% to 14.84%. More detail in relation to this can be found in the Social, Ethical and Environmental Responsibilities report on pages 84 to 89	2013 14.84% 2012 16.10% 2011 19.03% 2010 15.88% 2009 19.81%	⟩ Page 87

Operating Review continued
Financial Review

Anne-Francoise Nesmes
Chief Financial Officer

Our divestment of the Services Segment (announced on 10 July 2013) was a logical strategic step following the successful acquisition of *Eurovet* in May 2012 and our stated objective to deliver a focused veterinary pharmaceuticals business. For the continuing operations in 2013, revenue and profits continued to grow, cash generation from operating activities was strong and investment to fund our advancing R&D pipeline increased.

All numbers are presented on a continuing operations basis for the Pharmaceuticals Segments and 2012 has been restated. The Services Segment is shown as a discontinued business in both years. Growth rates are shown on a constant exchange rate basis ("CER") and on a reported basis.

Underlying Financial Results

Underlying results of the Group reflect its trading performance excluding amortisation on acquired intangibles, non-underlying charges and other one-off events that are inherently volatile. Our results, excluding non-underlying items, are summarised below.

	2013			2012				
	Continuing operations £'m	**Discontinued operations £'m**	**Total £'m**	Continuing operations £'m	Discontinued operations £'m	Total £'m	Continuing operations Reported results	Continuing operations Constant currency
Revenue	**189.2**	**333.2**	**522.4**	124.3	315.7	440.0	+52.2%	+56.6%
Gross profit	**100.7**	**29.8**	**130.5**	71.1	28.2	99.3	+41.6%	+45.6%
Gross profit %	53.2%	9.0%	25.0%	57.2%	8.9%	22.6%		
Underlying operating profit	**39.1**	**11.1**	**50.2**	25.6	11.1	36.7	+53.1%	+58.2%
Underlying profit before tax	**33.5**	**11.1**	**44.6**	21.8	11.1	32.9	+53.7%	+59.7%
Underlying EBITDA	**42.8**	**11.8**	**54.6**	28.4	11.3	39.7	+51.0%	+55.6%

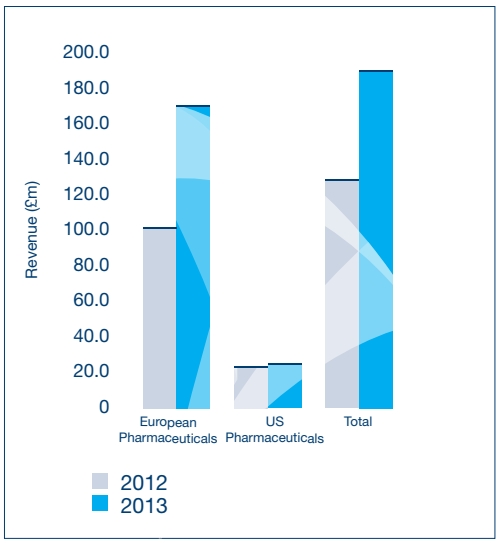
Revenue

Total Group revenue increased by 56.6% at constant exchange and 52.2% at reported rate compared to the year ended June 2012. The acquisition of *Eurovet* occurred towards the later part of the 2012 financial year and hence revenue for that period included only five weeks of Eurovet revenue.

Revenue by Segment

As reported, European Pharmaceuticals revenue at £168.7 million grew by 66.3% (CER) as a result of the *Eurovet* acquisition and a strong performance from our core brands.

Revenue in the US at £20.5 million increased by 4.7% (CER) hampered by third party supply issues, as referred to in the Chief Executive Officer's report. Excluding these issues, revenue increased approximately by 10%.

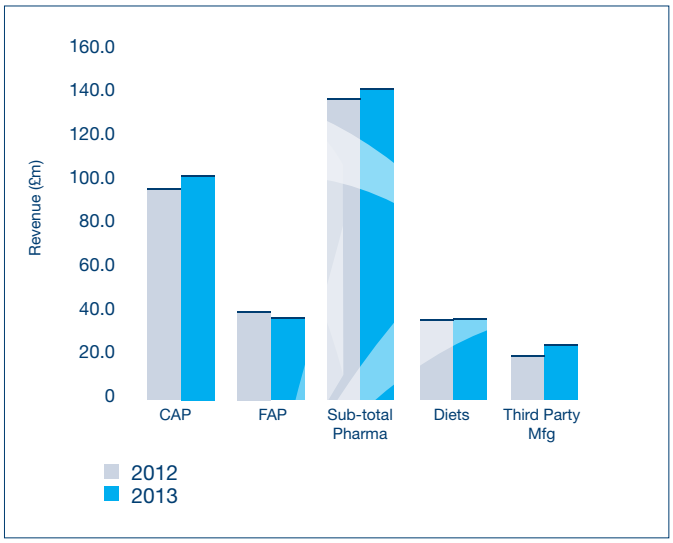


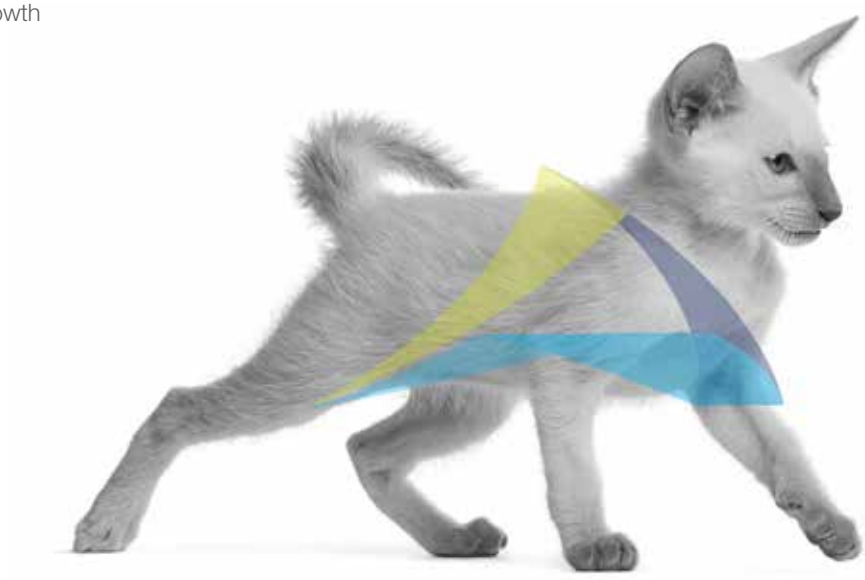
Revenue by Categories

On a like-for-like basis (including *Eurovet* for 12 months in 2012).

All franchises reflected growth (at CER) versus 2012:

- Pharmaceuticals increased by 4.7%
  - The companion animal products grew by 7.8% driven by our key products *Vetoryl*, *Felimazole* and *Cardisure*
  - The food producing animal products declined by 3.2% due to pressure on antibiotic prescriptions and competition on *Cyclospray*
- Diets delivered growth of 2.6%
- Third party manufacturing had a solid performance with 12.5% growth





Operating Review continued
Financial Review continued

Gross Profit
Following the *Eurovet* acquisition, our pharmaceutical product mix has broadened to include generics and food producing animal products. Consequently, overall gross margins have declined by 4% from 57.2% to 53.2%.

Selling, General and Administrative expenses ("SG&A")
The SG&A increase of £13.8 million year on year reflects the full impact of running a combined operation after realising the expected synergies of the acquisition of *Eurovet*.

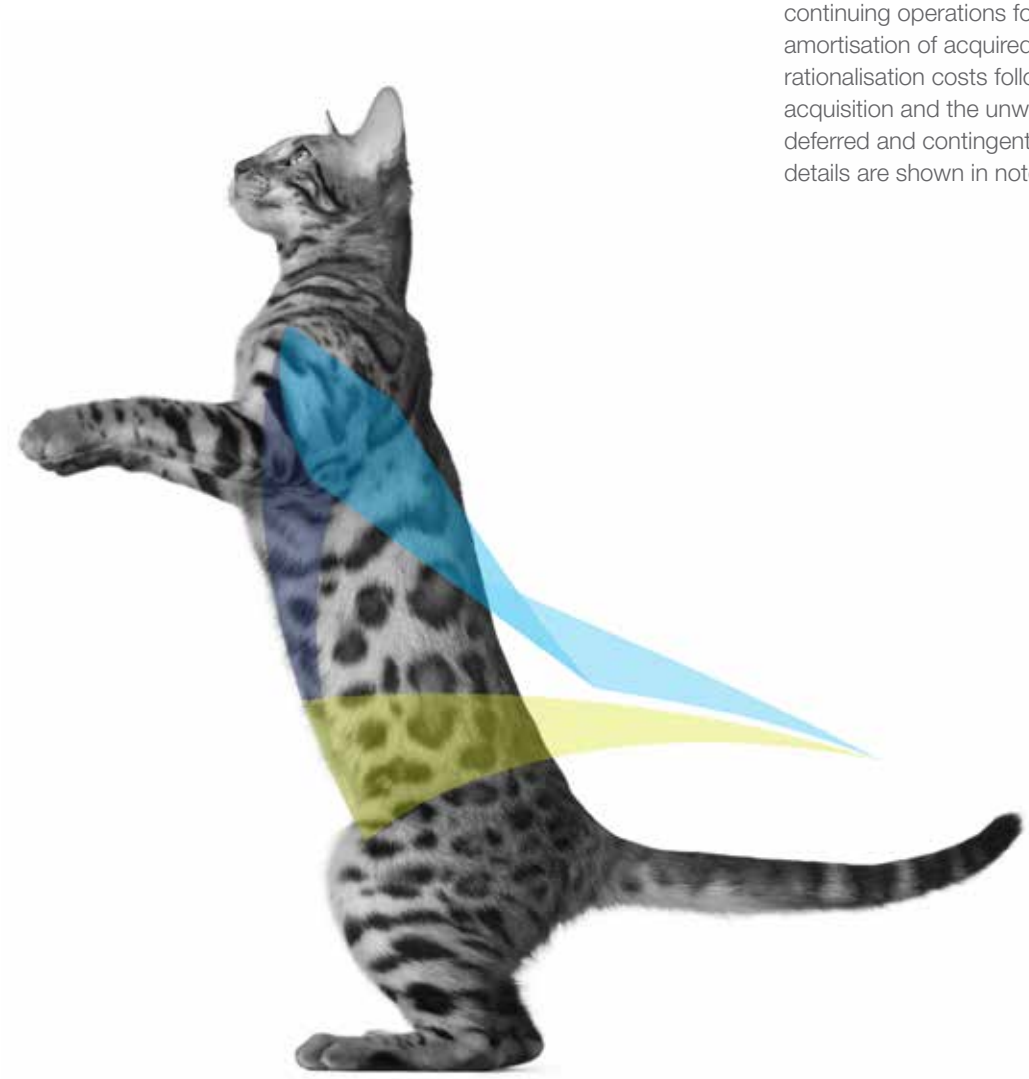
Research and Development Expenses ("R&D")
R&D investment has increased by £2.3 million from £5.7 million to £8.0 million. This increase reflects not only our enlarged R&D organisation following the *Eurovet* acquisition but also our additional investment to advance and deliver our promising pipeline.

Discontinued Businesses
Consistent with the Group's long term policy to focus its activities on the manufacture and marketing of specialist veterinary pharmaceutical products, we announced our intention to dispose of the Services Segment on 10 July 2013. The transaction was completed on 16 August 2013 with sales proceeds of £87.5 million.

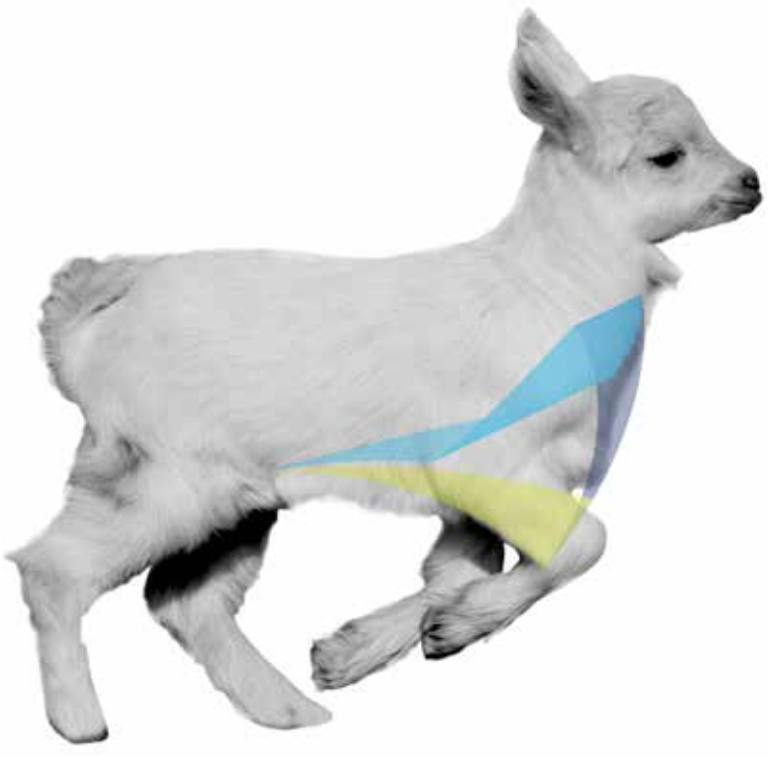
The disposed businesses have been accounted for as discontinued operations. Transaction expenses of £1.5 million have been recorded as non-underlying items for the discontinued operations. See note 29.

Total Results and Non-Underlying Items
Including the profit from the discontinued operations and non-underlying items, Group's profit after tax of £17.9 million increased by 60.5% (CER) and 53.4% (at reported rate).

Non-underlying items of £21.1 million for the continuing operations for the year comprised amortisation of acquired intangibles, rationalisation costs following the *Eurovet* acquisition and the unwinding of discounts on deferred and contingent consideration. Full details are shown in notes 4 and 5.



	2013			2012				
	Continuing operations £'m	**Discontinued operations £'m**	**Total £'m**	Continuing operations £'m	Discontinued operations £'m	Total £'m	Reported results	Constant currency
Revenue	**189.2**	**333.2**	**522.4**	124.3	315.7	440.0	+18.7%	+20.0%
Cost of sales	**(88.5)**	**(303.4)**	**(391.9)**	(53.2)	(287.5)	(340.7)	+15.0%	+15.8%
Gross profit	**100.7**	**29.8**	**130.5**	71.1	28.2	99.3	+31.5%	+34.4%
Gross profit %	53.2%	9.0%	25.0%	57.2%	8.9%	22.6%		
Selling, General and Administrative expenses	**(53.6)**	**(18.7)**	**(72.3)**	(39.8)	(17.1)	(56.9)	+27.1%	+29.8%
Research and Development expenses	**(8.0)**	**—**	**(8.0)**	(5.7)	—	(5.7)	+38.8%	+38.9%
Underlying operating profit	**39.1**	**11.1**	**50.2**	25.6	11.1	36.7	+37.3%	+40.8%
Underlying operating profit %	20.7%	3.3%	9.6%	20.5%	3.5%	8.3%		
Net finance costs	**(5.6)**	**—**	**(5.6)**	(3.8)	—	(3.8)	+53.0%	+53.5%
Underlying profit before tax	**33.5**	**11.1**	**44.6**	21.8	11.1	32.9	+35.6%	+39.4%
Taxation	**(8.0)**	**(2.7)**	**(10.7)**	(5.8)	(2.9)	(8.7)	+23.4%	+27.0%
Tax rate %	24.1%	23.9%	24.1%	26.5%	25.8%	26.3%		
Underlying profit after tax	**25.5**	**8.4**	**33.9**	16.0	8.2	24.2	+40.0%	+43.8%
Non-underlying items	**(21.1)**	**(1.5)**	**(22.6)**	(15.7)	(0.4)	(16.1)	+39.8%	+40.5%
Tax on non-underlying items	**6.5**	**0.1**	**6.6**	3.6	—	3.6	+83.0%	+83.6%
Total non-underlying items	**(14.6)**	**(1.4)**	**(16.0)**	(12.1)	(0.4)	(12.5)	+27.5%	+28.2%
Reported profit for the period	**10.9**	**7.1**	**17.9**	3.9	7.8	11.7	+53.4%	+60.5%
Reported diluted EPS (pence)	**12.39**	**8.06**	**20.45**	5.18	10.42	15.60	+31.1%	+38.0%
Underlying diluted EPS (pence)	**29.07**	**9.64**	**38.71**	21.28	10.99	32.27	+20.0%	+23.6%



Operating Review continued
Financial Review continued

Taxation
The underlying tax charge from continuing operations for the year was £8.0 million. This reflects an effective tax rate of 24.1% compared to 26.5% in 2012. Our effective rate has reduced in the year as a result of changes to tax rates in both the UK and overseas.

Earnings per Share and Dividends
Underlying diluted EPS for the year for the Group business was 38.71 pence (2012: 32.27 pence). The underlying diluted EPS for the continued operations was 29.07 pence, representing 36.6% growth (at reported rate) over 2012. For clarity, the EPS for the financial year does not reflect any future interest benefits or tax impact as a result of the divestment.

The Board is proposing a final dividend of 9.66 pence per share (2012: 8.50 pence). Added to the interim dividend of 4.34 pence per share, this brings the total dividend per share for the financial year ended June 2013 to 14.00 pence (2012: total 12.27 pence). Dividend cover based on underlying earnings was 2.8 times.

Subject to Shareholder approval at the Annual General Meeting to be held on 17 October 2013, the final dividend will be paid on 22 November 2013 to Shareholders on the Register at 8 November 2013. The shares will become ex-dividend on 6 November 2013.

Cash Flow and Net Debt

	2013 £'m	2012 £'m
Underlying operating profit	**50.2**	36.7
Non-underlying items (excluding amortisation on acquired intangibles)	**(4.0)**	(4.9)
Operating profit before acquired intangibles amortisation	**46.2**	31.8
Cash generated from operations before tax and interest payments	**49.4**	29.1
Cash conversion (%)	**107.0**	91.7

The net cash inflow from the Group's activities increased by £17.7 million (from £19.2 million to £36.9 million) reflecting the impact of our enlarged operations. A strong cash inflow in the second half of the year contributed to the cash conversion of 107.0%. Excluding non-underlying items, cash conversion was 98.4%. Following the divestment, the Group expects a moderate improvement in cash conversion.

The significant transaction to report for investing activities during the period is the further payment of US$16.0 million (£10.0 million) in respect of the acquisition of *DermaPet*, Inc.

The net borrowing position at the end of the year was £80.8 million down from £86.7 million last year.

At the end of the year, the Group had the following banking facilities;

- A balance of £50.0 million on the initial £55.0 million term loan repayable in instalments through October 2016. £5.0 million was repaid in the period; and
- A £65.0 million revolving credit facility until October 2016.

There was substantial headroom on all covenants during the year.

The Group also has an overdraft facility of £10.0 million, none of which was utilised at year end.

Balance Sheet

Net assets at 30 June 2013 totalled £174.6 million, a £20.9 million increase compared to the £153.7 million reported on 30 June 2012.

	2013 £'m	2012 Restated £'m
Assets		
Total non-current assets	**235.7**	237.1
Total current assets (excluding held for sale assets)	**89.6**	86.9
Assets held for sale	**89.8**	80.4
Total assets	**415.1**	404.4
Liabilities		
Total current liabilities (excluding held for sale liabilities)	**(49.5)**	(48.2)
Total non-current liabilities	**(137.0)**	(147.3)
Liabilities held for sale	**(54.0)**	(55.2)
Total liabilities	**(240.5)**	(250.7)
Total net assets	**174.6**	153.7

Intangibles amount to £219.6 million as at 30 June 2013. There was no significant movement versus 2012 other than the expected amortisation. The strong performance in the underlying trade associated with these intangibles continues to support their carrying value. Details can be found in note 11.

Total working capital for continuing operations was £28.4 million in June 2013 compared to £29.7 million in 2012. This reflects our disciplined management of working capital.

Financial Risks

From a financial perspective we consider several risks, including the following:

- Our foreign currency exposure: the Group has significant sales in Europe, some revenues in US$ and operations in Danish Krone;
- Exposure to interest rate changes: the Group has entered into an interest rate swap on the term loan and the revolving credit facility; and
- Tax to ensure we are compliant across all territories.

Additional considerations are disclosed in note 22.

Events after the Reporting Period

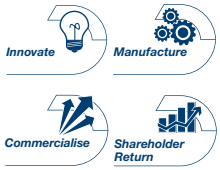
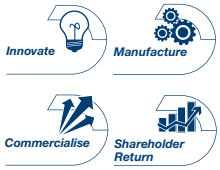
On 16 August 2013, the Group completed the sale of the Services businesses for a consideration of £87.5 million. The completion accounts are yet to be finalised.

Summary

During 2013 we continued to build a focused international specialist veterinary pharmaceuticals business. The divestment of the Services Segment at an attractive valuation strengthens our Balance Sheet giving the Group the opportunity to invest in our pipeline and other value-enhancing opportunities.

Operating Review continued
Risk and Risk Management

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 50 to 60.

Strategic Element	Risk	Potential Impact
	Competitor product launched against one of our leading brands	◗ Loss of market share and revenue ◗ Increased marketing activity and expenditure ◗ Revenues and margins may be materially adversely affected upon the expiry or early loss of patents, or by generic entrants into the market for the applicable product
	Revenue from recently launched new products failing to meet expectations	◗ Reduced revenue and profitability which may mean we are unable to recoup the costs incurred in developing and launching the product ◗ Impairment of intangible assets
	Failure of clinical trials	◗ A succession of clinical trial failures could adversely affect our ability to deliver Shareholder expectations ◗ Development costs have been incurred but are effectively wasted ◗ Our reputation and relationship with veterinarians could be damaged ◗ Our positioning in the market may be affected and could reduce our leading position in key therapeutic areas
	Prescribing pressure on veterinarians to reduce antibiotic use	◗ Impact our antimicrobial product range and reduce sales ◗ Our reputation could be adversely impacted if we do not respond appropriately to government pressure
	The failure of a major supplier	◗ This may lead to significant delays and/or difficulties in obtaining goods and services on commercially acceptable terms ◗ The subsequent delay in manufacturing and sales may result in product shortages and significant delays, which may lead to lost sales
	Failure to meet regulatory requirements under which we operate	◗ Delays in regulatory reviews and approvals could impact the timing of a product launch ◗ Significant delays to anticipated launch dates of new products could have a material adverse effect on our margins ◗ Any changes made to the manufacturing, distribution, marketing and safety surveillance processes of our products may require additional regulatory approvals, resulting in additional costs and/or disruption to these processes ◗ Failure to achieve regulatory requirements may result in operational closures which in turn increases expenditure and delays production
	Loss of key personnel	◗ Loss of knowledge, skills and experience ◗ Inability to attract key personnel may weaken succession planning

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

How we mitigate the risk
◗ Product improvement plans and marketing strategies are reviewed on a regular basis ◗ Where competitor products are launched a response strategy is established and followed by our marketing team to highlight any unique selling points or competitive advantages or to position our products defensively to minimise competitor impact ◗ Market research is conducted in order to allow the marketing team to better understand customer needs and ensure that our products fulfil the identified requirements ◗ Any product patents are monitored and consideration given to the formulation of a defensive strategy towards the end of the life of the patent
◗ In respect of all new product launches a detailed marketing plan is established. Progress against the plan is constantly monitored ◗ The Group ensures that it has detailed market knowledge and retains close contact with customers through its sales 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 ◗ Regular review of pipeline by a cross functional project team
◗ Regular contact is made with all relevant veterinary authorities to ensure that we have a comprehensive understanding of anticipated regulatory changes ◗ Development of new products that minimise antimicrobial resistance concerns
◗ 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 ◗ The business units monitor the financial status of key customers and maintain regular contact with them (including face to face meetings) ◗ All contracts with suppliers are reviewed from both a commercial and legal perspective to ensure that assignment of the contract is allowed should there be a change of control of either of the contracting parties
◗ 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
◗ New Executives/Senior Managers are provided with a detailed induction to the business ◗ Succession planning is given consideration by the Board and, where deemed necessary, Key Man Insurance is in place ◗ Implementation of a Performance and Development Review Process is in progress ◗ Remuneration packages are reviewed on an annual basis in order to ensure that the Company can continue to retain, incentivise and motivate its employees

Board of Directors

Michael Redmond
Non-Executive Chairman

Committee Membership

Nomination (Chairman), Remuneration

Background

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.

External appointments

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).

Ian Page
Chief Executive Officer

Committee Membership

Not applicable

Background

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.

External appointments

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

Anne-Francoise Nesmes
Chief Financial Officer

Committee Membership

Not applicable

Background

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

External appointments

None.

Ed Torr
Business Development Director

Committee Membership

Not applicable

Background

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 EU in January 2008, following completion of the acquisition of *VetXX*. In May 2012 on the completion of the acquisition of *Eurovet* Animal Health BV, Ed reverted to his historical position within Dechra as Business Development Director. Prior to joining the Group, he worked within the animal healthcare sector for a number of companies including ICI, Wellcome and Alfa Laval Agri.

External appointments

None.

Tony Griffin
Managing Director, Dechra Veterinary Products EU

Committee Membership

Not applicable

Background

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

External appointments

None.

Neil Warner

Senior Independent Non-Executive Director

Committee Membership

Audit (Chairman), Nomination, Remuneration

Background

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.

External appointments

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.

Dr Christopher Richards

Non-Executive Director

Committee Membership

Remuneration (Chairman), Audit, Nomination

Background

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

External appointments

Chris holds a number of Non-Executive Directorships including Cibus Global Limited (appointed November 2011), and he is Chairman of Oxitec Limited (appointed January 2012) and Plant Health Care PLC (appointed July 2012).

Julian Heslop

Non-Executive Director

Committee Membership

Audit, Nomination, Remuneration

Background

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

External appointments

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

Ishbel Macpherson

Non-Executive Director

Committee Membership

Audit, Nomination, Remuneration

Background

Ishbel joined the Group as a Non-Executive Director in February 2013. She has over 20 years' experience as an investment banker, specialising in UK mid-market corporate finance. She was Head of UK Emerging Companies Corporate Finance at Dresdner Kleinwort Benson from 1999 to 2005, having previously worked at Hoare Govett and Barclays de Zoete Wedd.

External appointments

Ishbel is currently Non-Executive Chairman of Speedy Hire PLC, a position which she has held since January 2011 (having been appointed to the Board of Speedy Hire in 2007). Ishbel is also a Non-Executive Director at Dignity plc and, previously, at May Gurney Integrated Services plc from 2010 to 2013.

Zoe Goulding

Company Secretary and Solicitor

Background

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.

External appointments

None.

Letter from the Chairman on Governance

Dear Shareholder

On behalf of the Board I am pleased to present Dechra's Corporate Governance report for the year ended 30 June 2013.

The 2012/2013 financial year has seen a number of changes to the Board from both an Executive and Non-Executive perspective. In terms of Executive Director changes, Simon Evans tendered his resignation as Group Finance Director after 15 years' service with the Company. During his tenure on the Board, Dechra developed from a UK based veterinary wholesale company into an international veterinary pharmaceuticals business. I would like to thank Simon for his significant contribution to the growth of Dechra and wish him well in his future.

Following Simon's resignation, JCA Group were retained to commence the search for a high calibre finance professional who could work alongside the Chief Executive Officer to continue to develop and progress the Group strategy. I was delighted that in April Anne-Francoise Nesmes agreed to join Dechra as its Chief Financial Officer. Anne-Francoise has an impressive financial career, the majority of which has been spent with GlaxoSmithKline during a 15 year period. I am sure that her experience and financial acumen will be invaluable to Dechra. I would like to take this opportunity to thank Paul Sandland, the Group Financial Controller, who in the interim period between Simon's resignation and Anne-Francoise's appointment, fulfilled the role of acting Group Finance Director with professionalism and commitment.

I am also pleased to report the appointment of Tony Griffin as an Executive Director in November 2012. Following the *Eurovet* acquisition in spring 2012, the Board identified the requirement for additional resource at Executive Director level and considered that Tony provided the relevant experience to assist in the development and implementation of the Group strategy, particularly given his extensive career in the veterinary pharmaceuticals industry.

In terms of new Non-Executive Director appointments, I am pleased to welcome both Julian Heslop and Ishbel Macpherson to Dechra. Each of whom has a wealth of relevant experience, which will bring valuable insight to the Board as we take Dechra forward into its next stage as a pure play veterinary pharmaceuticals business.

I would like to express my gratitude to Neil Warner who, after over ten years as a Non-Executive Director of Dechra, has expressed his intention to stand down at the 2013 Annual General Meeting. Over the years Neil has provided a valuable contribution as both a Board member and Chairman of the Audit Committee, in particular in terms of finance, risk and governance. On behalf of the Board I wish him well in his future.

The Board is currently undertaking its 2012/2013 evaluation. Following a discussion as to process it has been agreed that an internal evaluation will be held this year but the Board will seek to carry out an external evaluation for 2013/2014. Details of the findings and action points arising from the 2011/2012 evaluation are detailed in the report.

Following the move to our new head office in Northwich, Cheshire it has been decided to hold this year's Annual General Meeting at the new premises. This Meeting provides Shareholders with the opportunity to meet with the Board on an informal basis and I hope that you will be able to attend.

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

Michael Redmond
Non-Executive Chairman
3 September 2013

Corporate Governance

Directors' Report: Corporate Governance

The Financial Reporting Council's UK Corporate Governance Code (the "Code") establishes the principles of good governance for companies; the following report describes how the Company has applied these principles to its activities. The Board remains committed to maintaining high standards of corporate governance and continually strives to do so. In the opinion of the Directors, the Company has complied with the Code throughout the period under review except in respect of the composition of the Audit Committee. On Bryan Morton's resignation in July 2012, Michael Redmond, Chairman of the Board, was appointed to the Audit Committee in order to maintain the required number of members in line with the Audit Committee Terms of Reference. Michael Redmond stood down as a member of the Audit Committee on 21 February 2013 upon the appointment of Julian Heslop and Ishbel Macpherson.

Leadership

The Board

The Board is led by the Chairman Michael Redmond and comprises four Executive Directors and four Non-Executive Directors. The biographical details of the Board of Directors are shown on pages 48 and 49.

The Chairman

The primary role of the Chairman is to:

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

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

The Chairman, at the time of his appointment, did meet and continues to meet the independence criteria defined within the Code. As reported in the previous Annual Report, Dechra's top ten Shareholders were consulted in August 2012 with regard to the tenure of the Chairman and the Senior Independent Director, each having held their respective positions for in excess of nine years. It was agreed with the Shareholders that it was deemed to be in the best interests of the Company and its stakeholders that the Chairman should remain in position for a further three years in order to oversee the induction and development of the new Non-Executive and Executive Directors to the Board. The Nomination Committee considers that Michael Redmond continues to lead the Board effectively, maintaining his independence and integrity at all times. He provides an invaluable contribution and insight to the Board by reason of both his previous pharmaceutical experience and the longevity of his association with the Company.

Therefore as agreed with the Shareholders, the Chairman's tenure will be reviewed prior to the 2014 Annual General Meeting.

Non-Executive Directors

Throughout the year the Non-Executive Directors have provided a solid, independent element to the Board ensuring that decisions are constructively challenged and debated.

During the year an independent recruitment consultant, JCA Group, was retained to assist in the recruitment of two new Non-Executive Directors. At the commencement of the recruitment process an objective role description was defined and agreed by the Nomination Committee detailing the skills and experience required for the Board positions.

As a result, on 1 January 2013 and 1 February 2013, Julian Heslop and Ishbel Macpherson, respectively, were appointed to the Board and also as members of the Remuneration, Audit and Nomination Committees. It is intended that Julian will be appointed as Chairman of the Audit Committee upon Neil Warner's retirement at the forthcoming Annual General Meeting and further detail of this is provided in the Audit Committee Report on pages 61 to 66. It is considered that each of the newly appointed Non-Executive Directors brings with them a breadth of experience which will add value to the decision making of the Board and the formulation and progression of the Group strategy.

Corporate Governance continued

Senior Independent Director

The Senior Independent Director is available to Shareholders if they have concerns which contact through the normal channels has failed to resolve or for which such contact is inappropriate. The Senior Independent Director also carries out the annual evaluation of the performance of the Chairman and chairs the Nomination Committee when it is considering the succession of that role.

Neil Warner has held the position of Senior Independent Director since 5 November 2010, having been appointed as a Non-Executive Director with the Company on 2 May 2003. Following Neil's retirement from the Board at the 2013 Annual General Meeting it has been agreed that Ishbel Macpherson will be appointed as the Senior Independent Director.

Chief Executive Officer

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

Ian Page is also the Non-Executive Chairman of Sanford DeLand Asset Management Limited ("Sanford"). The Board fully considered at the time of his appointment whether this would materially impact on his current time commitment as Chief Executive Officer and whether it could give rise to any conflict. As Ian Page is not involved in any investment decision made by Sanford it was not considered that any conflict would arise nor would there be any impact on his time commitment. Further details in relation to the appointment can be found in the Remuneration Report on pages 67 to 83.

Chief Financial Officer

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

As well as assisting in the recruitment of two new Non-Executive Directors during the year, JCA Group was engaged in relation to the appointment of the Chief Financial Officer following the resignation of Simon Evans. Following a rigorous recruitment process, Anne-Francoise Nesmes was appointed to the Board in April 2013. Anne-Francoise is a high calibre finance professional who has valuable international, pharmaceutical, manufacturing and commercial experience gained during her extensive tenure with GlaxoSmithKline PLC over a 15 year period.

Company Secretary

Zoe Goulding was appointed as Company Secretary on 2 July 2007 and acts as Secretary to the Board and its Committees. The primary role of the Company Secretary is to advise the Board on matters of procedure and governance, ensuring that all required information is made available to the Board on a timely basis. Both the appointment and removal of the Company Secretary is a matter for the Board as a whole.

Corporate Governance Framework

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

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

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

Strategy and Management	Approval and monitoring of long term objectives and strategy Approval of the Group's operating and capital expenditure budgets Major organisational changes Regular reviews of business performance
Financial Reporting	Approval of the Annual Report and dividend policy Approval of development expenditure Approval of treasury policy
Internal Controls	Review and approval of internal controls and risk management policies and processes
Corporate Governance	Board and Committee composition (including succession planning) Corporate Governance matters Approval of policies such as Health and Safety and the Business Code of Conduct

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

Board Meetings

The Board is scheduled to meet nine times per year. During the year two additional meetings were required to discuss the disposal of the Services Segment.

Attendance at the Board and Nomination Committee meetings during the year to 30 June 2013 was as follows (details of attendance at the Audit and Remuneration Committee meetings are provided on pages 62 and 68 respectively):

Name	Board (11 Meetings)	Nomination (4 Meetings)
Mike Redmond	11/11	4/4
Julian Heslop (appointed 1 January 2013)	7/7*	1/1*
Ishbel Macpherson (appointed 1 February 2013)	6/6*	0/0*
Dr Chris Richards	11/11	4/4
Neil Warner	9/11	4/4
Bryan Morton (resigned 9 July 2012)	0/1†	0/0†
Ian Page	11/11	n/a
Simon Evans (resigned 18 October 2012)	2/2†	n/a
Tony Griffin (appointed 1 November 2012)	8/8*	n/a
Anne-Francoise Nesmes (appointed 22 April 2013)	3/3*	n/a
Ed Torr	10/11	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.

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

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

Corporate Governance continued

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

Board Meeting Agenda and Papers

The Directors are supplied in a timely manner with all relevant documentation and financial information to assist them in the discharge of their duties. Prior to all Board meetings an agenda and supporting documentation is circulated to the Board. Every meeting agenda comprises reports from the following individuals:

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

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

Each year an annual strategic agenda is drawn up and approved by the Board. This enables the Board to focus on and discuss key strategic areas on a regular basis. Additionally, every six months, a comprehensive review of the Group strategy is carried out. This agenda provides the Board with an opportunity to speak with the senior managers on a one to one basis and gain a more in-depth understanding of their area of responsibility. During the year the following business presentations have been made:

Date of Meeting	Presentation Subject	Delivered by
August 2012	Group IT Strategy	Allen Mellor (Group IT Director)
December 2012	DVP US update	Mike Eldred (President, DVP US)
January 2013	Oracle implementation	Allen Mellor (Group IT Director)
April 2013	Product Development and lifecycle management — review of key development projects and an outline of exploratory projects	Susan Longhofer (Group Director, Product Development and Regulatory Affairs) and Rob Joosten (Product Development and Regulatory Affairs)
May 2013	Manufacturing and Sourcing	Mike Annice (Managing Director of Dechra Pharmaceuticals Manufacturing)

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

The Board has formally delegated specific responsibilities to Board Committees, in particular 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.

During the year the Chief Executive Officer and Chief Financial Officer have attended the Board meetings of the businesses which make up the operating segments (in relation to the US these meetings are generally held by video conference). The meetings are chaired by the Chief Executive Officer allowing him and the Chief Financial Officer the opportunity to obtain detailed information on the businesses' strategic, operational and financial progress including any issues potentially preventing the achievement of their targets. Key operational information obtained from these meetings is then reported back to the Board.

The Chief Executive Officer has also chaired a number of product development meetings during the year. Representatives from the finance, marketing and manufacturing departments also attend these meetings thereby allowing the product pipeline to be comprehensively reviewed.

Following the disposal of the Services Segment a review of the operational Board meetings has taken place and it has been agreed that six meetings a year will be held for DVP EU, DVP US, Manufacturing and Product Development. Furthermore, four Executive Board meetings have been scheduled. It is the intention that these meetings will be attended by the four Executive Directors, the Managing Directors of the operating businesses along with the IT and HR Directors.

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

Effectiveness

Board Balance and Independence

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

- the appointment of Tony Griffin (Managing Director of DVP EU) as an Executive Director on 1 November 2012;
- the appointment of Julian Heslop (Non-Executive Director) on 1 January 2013;
- the appointment of Ishbel Macpherson (Non-Executive Director) on 1 February 2013;
- the appointment of Anne-Francoise Nesmes as Chief Financial Officer on 22 April 2013;
- the resignation of Bryan Morton (Non-Executive Director) on 9 July 2012; and
- the resignation of Simon Evans as Group Finance Director on 18 October 2012.

As previously stated, Neil Warner will retire as a Non-Executive Director at the 2013 Annual General Meeting having held a position on the Board for over ten years. As agreed with the major Shareholders the Chairman's position will be reviewed prior to the 2014 Annual General Meeting.

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

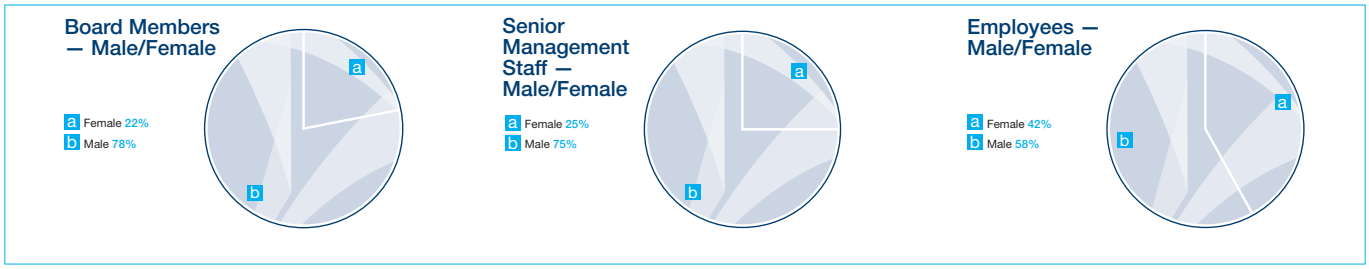
Diversity

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

Notably, of the recent Board appointments, two out of the three have been female. Both of these appointments were made on merit, and not on gender. Both appointees were by far the strongest candidates for the positions and their skill set and overall experience fitted the objective role description approved by the Board at the outset of the recruitment process.

In terms of female representation across the Group: 22% of Board members (2012: nil); 25.0% (2012: 25.0%) of the senior management team; and 42% (2012: 44.8%) of the overall workforce are females.

Diversity in the Board and Beyond



Corporate Governance continued

Conflicts of Interest

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

Information and Professional Development

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

In order to ensure that the Board maintains its knowledge and familiarity with the Group's operations it is intended that at least one Board meeting per year is held at one of the Group's operational sites. During the year a Board meeting was held at Dechra Manufacturing, Skipton, and the main *Eurovet* facility (Bladel) in the Netherlands. The Board had an opportunity to be shown around both of these manufacturing 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 to meet with the executive teams and to be shown around the operations. All of the new Non-Executive Directors and Executive Directors appointed during the year visited the facilities at both Skipton and Stoke-on-Trent prior to their respective appointments. Meetings were also arranged with the Product Development and Regulatory Affairs Directors, the HR Director and the Managing Director and Quality Director of Dechra Pharmaceuticals Manufacturing.

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

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

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), Julian Heslop (appointed 1 January 2013), Ishbel Macpherson (appointed 1 February 2013), Dr Chris Richards and Neil Warner. The Chairman will not chair the Committee meeting if it is dealing with the appointment of his successor. Details of the work carried out by the Nomination Committee during the financial year have already been detailed in this report. The Nomination Committee normally meets once a year. During the financial year under review three additional Nomination Committee meetings were held in order to discuss and recommend the various Board appointments.

The terms of reference set out the Nomination Committee's role and the authority delegated to it by the Board. The terms of reference have been reviewed during the year; a copy is available on the Company website at www.dechra.com. The terms of reference 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, the Board is notified of any subsequent changes. The letters of appointment of the Non-Executive Directors are available for inspection at the Company's registered office. Both the letters of appointment of the Non-Executive Directors and the service contracts of the Executive Directors will be on display at the forthcoming Annual General Meeting.

Board Evaluation

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

- The 2011/2012 Board evaluation:

  The evaluation process was reviewed in detail by the Chairman and the Company Secretary and discussed with the Board. It was agreed that, given the number of changes to the Board during the review period, an internal (rather than external) evaluation would be the most beneficial to the Company.

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

Action	Progress
Board succession planning discussion and implementation	Two new Non-Executive Directors have been appointed during the course of the year. Furthermore, an additional Executive Director position was created by the appointment of Tony Griffin to the Board
Review of Board pack content and Board meeting discussion	Following the October 2012 strategy meeting the Board agenda was reviewed in order to increase focus on strategic matters. This was assisted by an updated programme of strategic matters for review during the year
Further development of the Group KPIs	This has not progressed to date but a review is now necessary given the recent disposal of the Services Segment
Post-acquisition reviews after 12 months	This has been tabled into the rolling agenda for the PLC Board Meetings

- The 2012/2013 Board evaluation

  A discussion took place at the February 2013 Board meeting as to whether or not an external evaluation should be commenced during the 2012/2013 financial year given the Company's move in June 2012 to the FTSE 250. It was agreed that given the changes to the Board (as detailed above) an internal evaluation would again be carried out. However, an external evaluation will be undertaken during the 2013/2014 financial year. The results of the 2012/2013 evaluation will be reported in next year's Report and Accounts.

Re-election

On appointment, Directors are required to seek election at the first Annual General Meeting following appointment. At the forthcoming Annual General Meeting, Julian Heslop, Ishbel Macpherson, Tony Griffin and Anne-Francoise Nesmes, who were all appointed during the financial year, will offer themselves for election. All of the remaining Directors will retire and offer themselves for re-election, excluding Neil Warner. Each of the Directors standing for re-election has been subject to a formal evaluation. Each of the Directors continues to perform effectively and demonstrate commitment, not only in respect of their roles and responsibilities, but also in relation to the Group and its stakeholders. The Board therefore recommends that Shareholders vote in favour of their respective elections and re-elections.

Corporate Governance continued

Accountability

Financial Reporting

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

The respective responsibilities of the Directors and the Auditors in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities and the Independent Auditor's Report on pages 94, and 96 to 97 respectively.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and Operating Review on pages 3 to 45. The principal risks that may affect the Group's future performance are set out on pages 46 and 47.

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

- a £55.0 million, 4½ year amortising term loan, repayable in eight instalments on 31 March and 30 September each year of £5.0 million per instalment, rising to £7.5 million per instalment from and including 30 September 2015 with a final instalment of £7.5 million on 31 October 2016. The first repayment was paid on 31 March 2013; and
- a £65.0 million 4½ year revolving credit facility committed until 31 October 2016.

The net proceeds from the disposal of the Services Segment to Patterson Companies, Inc. in August 2013 will be used to reduce the Group's debt through the prepayment and cancellation of the Group's existing £50.0 million term loan facility and the reduction in amounts drawn under the Group's existing £65.0 million revolving credit facility. This revolving credit facility will be retained on an ongoing basis to fund the development of the business.

The Group also had cash balances of £32.8 million at 30 June 2013.

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

Internal Control and Risk Management

The Directors are responsible for maintaining the Group's system of internal control and for reviewing its effectiveness from a financial, operational and compliance perspective. The system of internal control aims to safeguard the Company's assets, ensure that proper accounting records are maintained, ensure compliance with statutory and regulatory requirements and ensure the effectiveness and efficiency of operations including the assessment and management of risk. The system of internal control is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has an 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 review of relevant risk areas and systems of internal control. The review is structured by business area and key risk strategy and is based upon a summary of information prepared and reviewed by the business units' executive teams on an ongoing basis. This framework has been in place throughout the year under review, and has continued up to the date of approval of the Annual Report.

The risk management process was last reviewed in 2009 and it has been agreed that the process will once again undergo a review during 2013/2014.

The Board has reviewed the operation and effectiveness of the internal controls for the year ended 30 June 2013. Further detail in respect of the risks and uncertainties faced by the Group and the mitigating action being taken can be found on pages 46 and 47.

The Group's key systems of control include:

- **Management Structure**
  The Group is organised into operating segments within which there are a number of business units. Each business unit has its own Managing Director and executive team; there are clear reporting lines and delegated authorities in place.

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

- **Management Accounting Processes**
  The finance function has implemented a detailed management accounting process which is in operation and 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 function 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 function. The finance function schedules two annual internal conferences at which a technical update, tailored specifically to the Group's commercial needs, is presented by the Auditor. During the 2012/2013 financial year this conference took place in November and April, the former meeting concentrated on the Senior Accounting Officer obligations and the latter provided an opportunity for the Chief Financial Officer to meet her team to discuss future strategy.

  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 Product Development and Regulatory team agrees an annual budget which receives approval from the Board; performance against this is monitored on an ongoing basis. The Product Development and Regulatory team 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' net present value and return on investment.

- **Whistle-blowing and Business Ethics Policy**
  The Company has a whistle-blowing policy in place which establishes a confidential channel of communication for employees to bring matters of concern about the running of the business to the attention of senior management. Upon being notified of such a concern, the policy sets out a defined process which allows a full investigation to take place and, where necessary, corrective action to be taken. The Audit Committee reviews the whistle-blowing policy on an annual basis.

  The Business Ethics Policy is currently undergoing a review and it is intended that an updated policy is rolled out across the Group during 2013/2014.

Corporate Governance continued

Audit Committee and Auditors

Information relating to the Audit Committee is set out in the Audit Committee Report on pages 61 to 66. 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-Yearly and Annual Reports provided to Shareholders, the audit process, the systems of internal control and risk management.

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

Remuneration

Details of Directors' remuneration are set out in the Directors' Remuneration Report at pages 67 to 83. This report details the Company's compliance with the Code's requirements with regard to remuneration matters.

Relations with Shareholders

Dialogue with Institutional Shareholders

Relationships with Shareholders receive high priority and a rolling programme of meetings between Institutional Shareholders and Executive Directors are held throughout the year. The Chief Executive Officer and Chief Financial Officer give annual and half-yearly results presentations to Institutional Investors, analysts and media, which are also available via telephone conference. These meetings are in addition to the Annual General Meeting and seek to foster mutual understanding of the Company's and Shareholders' objectives. Such meetings are conducted in a format to protect 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 other parties such as financial analysts, brokers and media. The Company also organises site visits on a periodic basis.

Tony Griffin and Anne-Francoise Nesmes separately attended a number of the Institutional Shareholder meetings held in September 2012 and February 2013 respectively, post the announcement of the full and half yearly results. This provided a number of Dechra's major Shareholders with the chance to meet Tony Griffin and Anne-Francoise Nesmes before the commencement of their appointment as Executive Directors.

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

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

Constructive use of the Annual General Meeting

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

Letter from the Audit Committee Chairman

Dear Shareholder

On behalf of the Board I am pleased to present Dechra's Audit Committee Report for the year ended 30 June 2013.

Last year I advised that, following over nine years' service with Dechra, I would be standing down as a Non-Executive of the Group at the 2013 Annual General Meeting and that the recruitment for a replacement Non-Executive Director, with recent and relevant financial experience, had commenced. I am pleased to report that Julian Heslop was appointed as a Non-Executive Director and also a member of the Audit Committee in January 2013 and that Julian has accepted the role of Chairman of the Audit Committee upon my retirement in October 2013.

Julian Heslop brings to the Committee a wealth of experience gained from serving as Chief Financial Officer of GlaxoSmithKline PLC between 2005 and 2011, having previously been appointed its Senior Vice President, Operations Controller between 2001 and 2005 and as Financial Controller of Glaxo Wellcome PLC between 1998 and 2000.

Since Julian's appointment in January 2013, he and I have worked closely together on all Audit Committee matters so that he is aware of any key issues in relation to audit matters and also to ensure a smooth and orderly handover of duties prior to my retirement.

I am also pleased to welcome Ishbel Macpherson as a member of the Audit Committee. Further details in respect of both Ishbel and Julian are provided in the Corporate Governance Report.

Last year you will recall that I reported that the Committee was in the process of defining the scope of an internal audit function with a view to commencing recruitment by the end of 2012. Following the resignation of the Group Finance Director, Simon Evans, in October 2012 it was agreed that the recruitment process be placed on hold until the new Chief Financial Officer, Anne-Francoise Nesmes, had taken up her role with the Company. Following Anne-Francoise's appointment, and a number of discussions in relation to the potential remit of an internal audit function within Dechra, it has been decided that the best approach to take at the current time is to outsource the function for an interim period whilst consideration can be given to the longer term view of the remit and responsibilities of an internal audit function. More details in relation to the tender process are provided within the following report.

Finally, I would like to take this opportunity to thank the Board of Dechra for their support during my tenure as both a Non-Executive of the Company and also Chairman of the Audit Committee. I firmly believe that Julian Heslop is well suited to guiding the Audit Committee forward and I wish him well with this role.

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

Neil Warner
Audit Committee Chairman

Audit Committee Report

Member	Independent	Meetings eligible to attend	Meetings attended
Neil Warner	Yes	4	4
Dr Chris Richards	Yes	4	3
Bryan Morton (resigned 9 July 2012)	Yes	1	0
Mike Redmond (appointed 19 July 2012/resigned 21 February 2012)*	Yes	1	1
Julian Heslop (appointed 1 January 2013)	Yes	2	2
Ishbel Macpherson (appointed 1 February 2013)	Yes	2	2

Secretary
Zoe Goulding

* Following the resignation of Bryan Morton from the Board, Mike Redmond was appointed as a member of the Audit Committee until the appointment of a new Non-Executive Director.

Role and Responsibilities

The main role and responsibilities of the Audit Committee (the "Committee") are set out in the written terms of reference which are available on the Company website at www.dechra.com. The Committee's terms of reference are reviewed on an annual basis and during the 2012/2013 financial year this took place at the February meeting. Following this review no material changes to the terms of reference were made. The main responsibilities of the Committee remain:

- to monitor the integrity of the financial statements of the Group, reviewing the annual and half-year reports in detail to ensure they present a balanced assessment of the Group's position and prospects which is understandable to Shareholders and potential investors;
- to review the effectiveness of the Group's internal controls and risk management systems as described on pages 58 to 59 and, in conjunction with the Auditor, consider the accounting policies adopted by the Group;
- to oversee the relationship with the Auditor. The Committee makes recommendations to the Board on the appointment of the Auditor, approves their remuneration and their terms of engagement, monitors their independence and objectivity, and sets the policy for non-audit work;
- to make recommendations to the Board on the requirement for an internal audit function;
- to review the arrangements for employees to raise concerns about wrongdoings, the Group's systems and controls for prevention of bribery and procedures for detecting, monitoring and managing risk of fraud.

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

Membership, Meetings and Attendance

The membership of the Committee and meeting attendance is stated on the previous page. Following the resignation of Bryan Morton in July 2012, Mike Redmond was appointed as a temporary member of the Audit Committee to ensure adherence to the Committee's terms of reference and in particular to ensure that Committee membership consisted of three Non-Executive Directors. This appointment was terminated on 21 February 2013 following the appointment of Julian Heslop as a Non-Executive Director. The Committee is pleased also to welcome Ishbel Macpherson as its most recent member.

The Board considers that the current Committee Chairman, Neil Warner, has recent and relevant financial experience as recommended by the UK Corporate Governance Code as a result of his financial background. He has held a number of financial positions throughout his career including most recently Finance Director of Chloride Group PLC (a position he held from 1997 until the end of December 2010) and also as Chairman of the Audit Committee of Vectura Group plc (to which he was appointed in February 2011).

Neil Warner will be standing down as a Non-Executive Director of the Company and as the Chairman of the Audit Committee at the forthcoming Annual General Meeting. It is intended that Julian Heslop will replace Neil as the Committee Chairman. As detailed in the Chairman's Letter on page 61, Julian worked for GlaxoSmithKline from 1998, latterly as its Chief Financial Officer from 2005 to 2011. It is therefore considered that Julian Heslop also has sufficient recent and relevant financial experience as required under the UK Corporate Governance Code.

Details of the members' financial and accounting experience are contained in the biographical details of the Board of Directors on pages 48 to 49.

The Auditor attends meetings of the Committee other than when their appointment or performance is being reviewed. The Chief Executive Officer, Chairman, Chief Financial Officer 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; during the financial year this took place at the end of the August meeting. Furthermore, during the year the Committee Chairman meets informally and has access to the Chief Financial Officer, Group Financial Controller and the senior audit engagement team. This group generally meets before the Committee meetings that consider the annual and half-yearly results.

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

Audit Committee Report continued

Activities during 2012/2013

The Committee met four times during the 2012/2013 financial 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 four meetings:

Meeting	Matters discussed/approved at the meeting
July 2012*	◗ Review of the requirement for internal audit function ◗ Non-audit fee update ◗ IFS review update ◗ Audit strategy for the year ended 30 June 2012 (including timetable, scope and fees) ◗ Auditor independence ◗ Company expectations of the audit
August 2012	◗ Auditor's Report on the 2011/2012 financial results ◗ Draft preliminary statement ◗ Draft Annual Report ◗ External audit effectiveness ◗ Audit Committee effectiveness review ◗ Auditor independence confirmation ◗ Non-audit fee update ◗ Going concern confirmation ◗ Internal controls ◗ Proposed final dividend ◗ Auditor representation letter ◗ Internal audit function
February 2013	◗ Auditor's report on half-yearly results ◗ Draft half-yearly report and announcement ◗ Terms of reference ◗ Interim dividend ◗ Going concern confirmation ◗ Senior Accounting Officer requirement ◗ Auditor representation letter ◗ Non-audit fee update
May 2013	◗ Internal audit function ◗ Non-audit fee update ◗ IFS review update ◗ Audit strategy for the year ended 30 June 2013 (including timetable, scope and fees) ◗ Auditor independence ◗ Company expectations of the audit ◗ Senior Accounting Officer

* Meeting postponed from May 2012 due to the Eurovet acquisition.

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 58 to 59). As reported in the 2012 Annual Report, in light of the *Eurovet* acquisition it was agreed that the Group was now of sufficient size to warrant an internal audit function. The Committee discussed the role specification at the August meeting. Following the resignation of the Group Finance Director, Simon Evans, in October 2012 it was agreed that the recruitment process be placed on hold until the new Chief Financial Officer, Anne-Francoise Nesmes, had taken up her role within the Company. Following Anne-Francoise's appointment, discussions in relation to the role took place between the Committee Chairman and Chief Financial Officer and it was decided that the best approach to take in the current circumstances was to outsource the function for the short term so that a longer term view could be taken on the remit and responsibilities of an internal audit function. Tender invitations have been forwarded to a number of accountancy firms (excluding the Auditor, KPMG) for an enterprise risk management and internal support control function. Proposals are expected back by 27 September 2013 with presentations to be held mid-October. The timeframe will therefore allow the project to be initiated at the beginning of January 2014. It is anticipated that this ongoing support will continue for between 12 and 18 months until a firm decision can be made regarding insourcing compared to outsourcing in relation to the function.

Auditor

Audit Engagement Director Rotation

In line with the ethical standards of the Audit Practices Board the Group Audit Engagement Director is rotated every five years. The current Group Audit Engagement Director was appointed during the 2010/2011 financial year. The next rotation is scheduled to take place during 2015/2016.

Independence

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 2013 and the Committee remain satisfied of the Auditor's independence.

Effectiveness

The performance of the Auditor is reviewed annually by the Committee at the end of the annual audit cycle taking into account feedback from financial directors and managers of the Group involved in the audit process, together with a review of the level of service provided by the Auditor to the Group. The Committee are satisfied with the current Auditor's effectiveness.

Audit Firm Tendering

The Committee are aware of the recommendations in the FRC UK Corporate Governance Code in relation to the expectation of the external audit being put out to tender every ten years.

KPMG Audit Plc has been appointed as the Auditor since the Company's formation in 1997 and their performance has been reviewed annually by the Committee since that time. The Committee has remained consistently satisfied with the level of independence of the Auditor and the integrity of the audit process. However, given the recent changes in best practice the Committee has considered whether an audit firm tender should be undertaken during the 2013/2014 financial year. Given the appointment of a new Chief Financial Officer in April 2013 the Committee believes that it would not be in the best interests of the audit process or indeed in respect of risk management to undertake a tender so soon after this appointment.

The Committee does, however, intend to undertake a tender process and will seek to align this with the rotation of the Audit Director Engagement scheduled for 2015/2016. The timing of this would therefore allow the successful audit firm (not disallowing for the fact that this could be the incumbent firm) to take up its appointment when the current Audit Director stands down.

Re-appointment of Auditor

In the light of organisational changes within KPMG, the Directors have agreed that KPMG Audit Plc, a wholly owned subsidiary of KPMG LLP, will step down as Auditor at the forthcoming Annual General Meeting and that a resolution to appoint KPMG LLP as Auditor and to authorise the Directors to set their remuneration will be proposed at the Annual General Meeting.

There are no contractual obligations that restrict the Committee's capacity to recommend a particular firm as Auditor.

Audit Committee Report continued

Non-Audit Assignments

With respect to non-audit assignments undertaken by the Auditor, the Company has a policy to ensure that the provision of such services does not impair their independence or objectivity. Safeguards are in place to ensure continued audit independence including utilising separate teams to undertake the audit and non-audit work. When considering the use of the Auditor to undertake non-audit assignments, the Chief Executive Officer and Chief Financial Officer do at all times give consideration to the provisions of the FRC Guidance on Audit Committees with regard to the preservation of independence. To assist the Auditor's independence Deloitte LLP was appointed in 2012 to undertake tax and compliance work in substitution for the Auditor.

Audit Fee Review

The fee proposals for the external audit and half-yearly results were considered and agreed in the May 2013 meeting.

Non-Audit Fees

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 firmly believes that there are certain non-audit services where it is appropriate for the Group to engage the Auditor. During the year, the Auditor was commissioned to carry out working capital and reporting accountant work in respect of the disposal of the Services Segment. The Auditor was considered the most cost effective and appropriate firm to perform this work given both their knowledge of the existing business and the requirement to report on the existing as well as the reduced Group. The Committee did not consider that the performance of this non-audit work would affect or impair the Auditor's integrity. 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. This shows that non-audit work represented 135% of the annual audit fee and, in line with the above stated policy, reflects the Committee's prior approval of the fees paid to the Auditor in respect of the disposal of the Services Segment. Excluding the costs relating to the disposal, non-audit work represented 39% of the annual audit fee.

Committee Effectiveness Review

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

Neil Warner
Audit Committee Chairman
3 September 2013

Letter from the Remuneration Committee Chairman

Dear Shareholder

On behalf of the Board I am pleased to present Dechra's Remuneration Report for the year ended 30 June 2013.

During the year the Remuneration Committee:

- reviewed the Chief Executive Officer's remuneration package;
- reviewed the Long Term Incentive Plan ("LTIP") performance metrics; and
- determine remuneration for the new Chief Financial Officer, Anne-Francoise Nesmes.

In respect of Ian Page's remuneration package the Committee believed that a repositioning was required in order to reflect his experience, performance and overall contribution to the Group. With regards to the proposed changes to the LTIP performance metrics, the Committee was of the opinion that the introduction of another performance measure (alongside relative TSR) would allow for a more balanced assessment of success and reward of long term shareholder value.

The Committee consulted with the Company's major Shareholders on the proposed changes and, taking into account feedback from investors, a number of changes were made to both Ian Page's remuneration package and the LTIP performance criteria. Detail in respect of these changes are contained within the following report. The Committee believes that these changes align and focus remuneration to reward longer term, sustainable performance.

During the year Dechra appointed a new Chief Financial Officer, Anne-Francoise Nesmes. Details of her remuneration package are provided in the following report including details of the one-off recruitment reward which it was agreed to grant her as partial compensation for the loss of share options granted to her by her previous employer. The Board considers Anne-Francoise as pivotal in assisting Ian Page to direct the Group to its next strategic stage and considers that it was in the best interests of the Company to create an overall recruitment package that would attract her to the role within Dechra and to incentivise and motivate her going forward during her career with the Company.

It should be noted that all the Executive Directors and Non-Executive Directors have agreed to waive an increase to their respective salaries and fees for the 2013/2014 financial year. An above inflation fee increase has been made to the Chairman and the reasons for this are detailed in the following report. Below Board level the average pay increase across the Group was 1.5%.

During the coming months, the Committee will review LTIP performance metrics in light of the disposal of the Services Segment and will consult with major Shareholders as appropriate.

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

Dr Christopher Richards
Remuneration Committee Chairman

Directors' Remuneration Report

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 81. As outlined above, Dechra has structured this report to incorporate a number of the key principles of the new Directors' Remuneration Report regulations. For Dechra the new regulations will apply in full for the financial year ending 30 June 2014.

Governance

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 for advisory vote at the 2013 Annual General Meeting.

Membership

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

Member	Independent	Meetings eligible to attend	Meetings attended
Dr Chris Richards*	Yes	5	5
Bryan Morton (resigned 9 July 2012)	Yes	0	0
Julian Heslop (appointed 1 January 2013)	Yes	2	2
Ishbel Macpherson (appointed 1 February 2013)	Yes	2	1
Mike Redmond	Yes	5	5
Neil Warner	Yes	5	4

Secretary
Zoe Goulding

* Appointed Committee Chairman on the resignation of Bryan Morton.

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

Responsibilities

The Committee has its own terms of reference, which are approved by the Board. These are reviewed on an annual basis to ensure that they continue to adhere to best practice. During the 2012/2013 financial year this review took place at the June meeting. Copies can be obtained via the Company website at www.dechra.com. The Committee Chairman and the Company Secretary are available to Shareholders to discuss the remuneration policy.

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

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

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

Meetings

The Committee met five times during the 2012/2013 financial year. Members' attendance at the meetings can be found on the previous page. The table below sets out a number of the matters which were discussed (and where necessary approved) at the five meetings:

Date	Subject Matter
August 2012	◗ Approval of pilot scheme of the Performance Development Review ("PDR") ◗ Review of benchmarking exercise ◗ Bonus scheme rules review ◗ Approval of Executive Director bonuses ◗ Discussion of the performance condition in respect of the LTIP granted in 2009 ◗ Review of Committee effectiveness ◗ Consideration of the grant of LTIP awards and performance conditions ◗ Approval of grant of Approved and Unapproved Share Options to senior managers
October 2012	◗ Proposed changes to Chief Executive Officer's remuneration package ◗ Proposed changes to the LTIP performance conditions
December 2012	◗ Update on Shareholder consultation in relation to the proposed changes to Chief Executive Officer's remuneration package ◗ Discussion of Chief Financial Officer's proposed remuneration package and recruitment award
February 2013	◗ Approval of amendments to LTIP performance conditions and grant of awards
June 2013	◗ Chief Financial Officer's recruitment award ◗ PDR update ◗ Confirmation of Executive Directors' and Senior Managers' salary for 2013/2014 ◗ Confirmation of Chairman's fees for 2013/2014 ◗ Confirmation of Executive bonus arrangements for 2013/2014 ◗ Arrangements for conforming to the new legislation in respect of Directors' Remuneration Report ◗ Review of terms of reference ◗ PLC Chairman's remuneration

Advisers

The Committee's main advisers are set out below:

Adviser	Areas of advice
Chief Executive Officer and Group HR Director	Remuneration of senior executives and senior management
DLA Piper (UK) LLP	Share scheme matters
Deloitte LLP	General remuneration and incentive arrangements for Executives and general share scheme advice Calculation of satisfaction (or otherwise) of the LTIP performance conditions

DLA Piper (UK) LLP are the Company's lawyers and Deloitte LLP provide tax and compliance advice to the Group. The nature and quantum of other services provided by DLA and Deloitte are always considered in order to ensure that no conflict of interest arises in relation to the services they provide to the Remuneration Committee.

Effectiveness Review

During the year, the Committee reviewed its effectiveness as part of the overall Board evaluation process. Following the review, the Committee considered it had the necessary skills and experience to perform its responsibilities, which was strengthened by the appointment of two Non-Executive Directors during the financial year. The Board was advised of these findings.

Directors' Remuneration Report continued

Remuneration Policy and Practice

Summary of the Remuneration Policy

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

- attract, retain and incentivise Executives of the calibre required to ensure that the Group is managed successfully to the benefit of Shareholders;
- provide appropriate alignment between Dechra's strategic goals, Shareholder returns and executive reward; and
- have a competitive mix of base salary and short and long term incentives with a significant proportion of the package determined by stretching targets linked to Dechra's performance.

In defining Dechra's remuneration policy, the Committee takes into account best practice guidelines set by institutional investor bodies such as the Association of British Insurers. The Chairman of the Company also ensures the Company, through the Committee and its Chairman, maintains contact with major Shareholders about remuneration matters.

Key Elements of Remuneration

The key elements of the Directors' remuneration package are illustrated in the following table. The policy details below apply from 1 July 2013.

Policy table

Element	Purpose and link to strategy	Operation	Opportunity	Performance measures
Base Salary	Core element of fixed remuneration reflecting the individual's role and experience. When considering base salary levels the Committee ensures that it provides the basis for a market competitive package to recruit and retain talent amongst the Executive Directors.	The Committee reviews base salaries annually and in doing so recognises the value of the individual, their skills and experience and performance. The Committee also takes into consideration: (i) pay increases within the Group more generally; and (ii) Group organisation, profitability and prevailing market conditions.	Salary increases will normally be in line with the wider Group and the Committee considers any increase out of line with this very carefully. Higher increases may be awarded in exceptional circumstances, taking into account all relevant commercial factors. These could include: increase in scope and responsibility, falling considerably below market positioning or promotional increase.	None, although performance of the individual is one of the considerations in setting salary levels.

Element	Purpose and link to strategy	Operation	Opportunity	Performance measures
Pension	Help retain and recruit employees. Ensure adequate income in retirement.	The Company operates a Group Stakeholder personal pension scheme which has been effective since 1 July 2005. All Executive Directors excluding Tony Griffin are members of this scheme. Tony Griffin participates in a defined benefit pension plan which has been established in the Netherlands. This is a funded career average pay arrangement, where pensionable salary is subject to a €50,000 cap. Salary over this cap is paid into a defined contribution pension plan.	The Company contributes 14% of salary to the Group stakeholder personal pension scheme on behalf of the Executive Directors, excluding Tony Griffin. A salary supplement is paid in lieu of amounts above the annual allowance of £50,000 per annum with respect to Ian Page. The Company contributed 12.4% of Tony Griffin's base salary. into the defined benefit pension plan up to the value of €50,000 of his salary and over this cap into the defined contribution pension plan.	Not applicable.
Taxable Benefits	Provided on a market competitive basis	The Company provides benefits in line with market practice and includes the use of a fully expensed car, medical cover and life assurance scheme. Other benefits may be provided based on individual circumstances.	Set at a level which the Committee considers appropriate and provides sufficient level of benefit based on individual circumstances.	Not applicable.
Annual Bonus	The executive bonus scheme rewards Executive Directors for achieving operating efficiencies and profitable growth in the relevant year by reference to operational targets and individual objectives.	Targets are reviewed annually and any pay-out is determined by the Committee after the year end based on targets set for the financial period.	Maximum bonus opportunity for Executive Directors is 100% of base salary.	Challenging but achievable operational targets and individual objectives are determined at the beginning of the financial year. The personal objectives for the Chief Executive Officer, Ian Page, are set by the Chairman. The personal objectives for Anne-Francoise Nesmes, Tony Griffin and Ed Torr are set by Ian Page.

Directors' Remuneration Report continued

Element	Purpose and link to strategy	Operation	Opportunity	Performance measures
Long Term Incentive Plan	The LTIP provides a clear link between the remuneration of the Executive Directors and the creation of value for Shareholders by rewarding the Executive Directors for the achievement of longer term objectives aligned closely to Shareholders' interests.	The Committee intends to make long term incentive awards under the existing LTIP. Under the LTIP, the Committee may grant awards as conditional shares, as nil cost options or as forfeitable shares. The Company also has in place a Company Share Option Plan ("CSOP"). Awards under the CSOP take the form of options to acquire shares, with a per share exercise price equal to the market value of a share at the date of grant. The Committee may at its discretion structure awards as Approved Performance Share Plan ("APSP") awards comprising both an HMRC approved option granted under the CSOP and a LTIP award, with the vesting of the LTIP award scaled back to take account of any gain made on exercise of the approved option. Other than to enable the grant of APSP awards, the Company does not intend to grant awards under both the LTIP and CSOP in the same grant period.	Current scheme rules permit grants up to 150% of salary (200% of salary in exceptional circumstances). Shareholder approval is being sought at the forthcoming Annual General Meeting to increase the award opportunity to 200%.	Vesting of the awards will normally occur provided that: (a) the participant is still employed by the Group at the end of the vesting period; and (b) to the extent that the pre-set performance targets have been satisfied over the three year performance period. › 50% on the Company's EPS growth; › 50% on the Company's total shareholder return ("TSR") performance relative to an appropriate comparator group; and › an 'underpin' condition based on the Company's underlying financial performance.
SAYE	Provision of the SAYE to Executive Directors creates staff alignment with the Group and provides a sense of ownership.	HMRC approved monthly savings scheme facilitating the purchase of shares at a discount.	Contribution limit of £250 per month.	Not subject to performance conditions in line with the HMRC approved operation of such plans.

Element	Purpose and link to strategy	Operation	Opportunity	Performance measures
Shareholding Guideline	Provides alignment of Executive Directors' interests with Shareholders and promotes share ownership.	In line with best practice, there are formal share ownership guidelines for Executive Directors. By the third anniversary of their appointment to the Board they are required to have acquired and retained a holding of Dechra shares equivalent to the value of at least 100% of their base salary.	Not applicable.	Not applicable.

Non-Executive Directors

Element	Purpose and link to strategy	Operation	Opportunity
Non-Executive Director Fees	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 Officer and the Chairman. Non-Executive Directors are not eligible to participate in any of the Company's share schemes, incentive schemes or pension schemes.	Non-Executive Directors are paid a basic fee with additional fees paid for the chairing of Committees. By the third anniversary of their appointment to the Board, Non-Executive Directors are required to have acquired and retained a holding of Dechra shares equivalent to the value of 50% of their base fee.

Directors' Remuneration Report continued

Policy on External Appointments

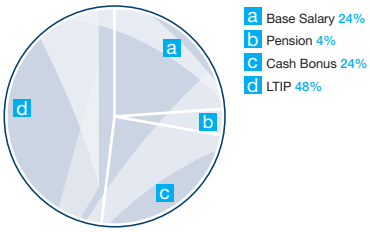
The Company recognises that Executive Directors may be invited to become Non-Executive Directors of other companies and that this can help broaden the skills and experience of a Director. Executive Directors are only permitted to accept external appointments with the approval of the Board.

The only Executive Director to hold an external appointment is Ian Page. He is Non-Executive Chairman of Sanford DeLand Asset Management Limited, a position which he has held since 7 October 2010. During the year, Ian Page received no remuneration for this appointment.

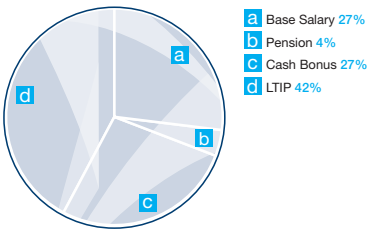
Balance of Remuneration

The following charts illustrate the proportions of the Executive Directors remuneration packages comprising fixed (i.e. base salary and employer pension contributions) and variable elements of pay, assuming maximum annual bonus and long term incentives are achieved.

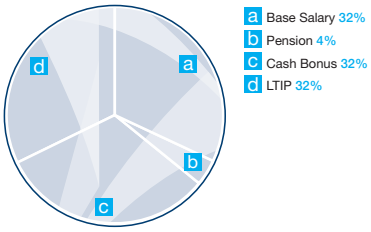
Ian Page



Anne-Francoise Nesmes



Ed Torr and Tony Griffin



Recruitment Remuneration Policy

When hiring a new Executive Director, the Committee will typically seek to use the Policy detailed on pages 70 to 73 to determine the Executive Director's ongoing remuneration package.

To facilitate the hiring of candidates of the appropriate calibre required to implement the Group's strategy, the Committee retains the discretion to make remuneration decisions which are outside the Policy. In determining appropriate remuneration, the Committee will take into consideration all relevant factors (including the quantum and nature of remuneration) to ensure the arrangements are in the best interests of Dechra and its Shareholders.

The Committee may make an award in respect of hiring an employee to "buyout" incentive arrangements forfeited on leaving a previous employer. In doing so the Committee will take account of relevant factors including any performance conditions attached to these awards and the time over which they would have vested. The Committee would seek to incorporate buyout and recruitment awards to be in line with the Company's remuneration framework so far as is practical. The Committee may consider other components including cash or shares awards, restricted stock awards and share options where there is a strong commercial rationale for doing so.

Reasonable costs and support will be covered if the recruitment requires relocation of the individual. Expat allowances may also be paid in these circumstances.

The Company recruited a new Chief Financial Officer, Anne-Francoise Nesmes, during the financial year, following the departure of Simon Evans. The Committee positioned the overall package for the new Chief Financial Officer at a level that was sufficient to recruit and retain a Chief Financial Officer of the required calibre and quality. Further details in respect of this can be found on page 79.

Service Contracts and Policy on Payment for Loss of Office

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

		Notice Period	
Name	Commencement date	Director	Company
Mike Redmond	25 April 2001	3 months	3 months
Ian Page	1 September 2008	6 months	12 months
Tony Griffin	1 November 2012	6 months	12 months
Anne-Francoise Nesmes	22 April 2013	6 months	12 months
Ed Torr	6 February 2009	6 months	12 months
Julian Heslop	1 January 2013	3 months	3 months
Ishbel Macpherson	1 February 2013	3 months	3 months
Dr Chris Richards	1 December 2010	3 months	3 months
Neil Warner	2 May 2003	3 months	3 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. In December 2012 the Non-Executive Directors agreed to an amendment to their respective service contracts reducing the notice period after the initial 12 month period from 12 months to three months' termination by either party. The Non-Executive Directors are entitled to compensation on termination of their appointment confined to three months' remuneration.

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

Provision	Treatment upon loss of office
Base Salary/Fees	Base salary/fees and benefits based on the duration of the notice period receivable from the Company.
Annual Bonus	This will be reviewed on an individual basis and the decision whether or not to award a bonus in full or in part will be dependent upon a number of factors including the circumstances of their departure and their contribution to the business during the bonus period in question.
Long Term Incentives	Determined in line with the provisions of the relevant plan rules.
Pension	This would be taken into account as part of the payment referred to in the base salary section.

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.

Directors' Remuneration Report continued

Annual Report on Remuneration

Base Salary

Salary effective from	1 January 2013	1 July 2013
Ian Page	£440,000	£440,000
Tony Griffin	€278,208	€278,208
Anne-Francoise Nesmes	£300,000*	£300,000
Ed Torr	£229,539	£229,539

* Anne-Francoise Nesmes' base salary on the date of appointment

In the last five years, salary increases for the Executive Directors have been in line with average salary increases for the wider employee population (approximately 2% to 3%).

During the 2012/2013 financial year, a comprehensive review of Ian Page's remuneration was undertaken, which highlighted that his base salary had fallen behind that of his peers. Our policy on base salary continues to be to provide a fixed remuneration component which reflects the experience and capabilities of the individual in the role, the demonstrated performance of the individual in the role, and which is competitive in the market we operate. Following the comprehensive review of Ian Page's remuneration package, and after consultation and support from the major Shareholders, the Committee unanimously concluded that a significant step up in salary was appropriate. This reflects a number of factors:

- his achievements since being appointed to Chief Executive Officer in 2001, in particular his energetic leadership of the business and the contribution he has made to the Group's significant strategic and financial progress;
- his delivery of significant and sustained increases in Shareholder value in what has been a very difficult environment for most businesses. In a period where many companies have had to settle for navigating through a crisis, our business has grown in size, both in terms of its complexity and geography;
- his successful integration of a number of significant strategic acquisitions, most recently the acquisition of *Eurovet*; and
- the market positioning of the salary against companies of a similar size and complexity.

The increase in base salary in January to £440,000 represented an increase of 15%. This positions his salary around the median levels compared to companies of a similar size and complexity.

All the Executive Directors have agreed to waive an increase in salary for the 2013/2014 financial year.

Non-Executive Director Fees

Since 2008 the Chairman and the Non-Executive Directors have been awarded inflationary increases only in respect of their fees. Furthermore, they waived any increase in 2009 and 2010. During the year a review of the Chairman's remuneration during the year identified that his fee was substantially lower than that of other Chairmen of companies of comparable size and complexity. After due consideration, the Committee decided to increase his fee to a level more commensurate with his experience, performance and overall contribution to the business. The remaining Non-Executive Directors have agreed to waive an increase in their fees for the 2013/2014 financial year.

Office	2012/13 Fee £'000	2013/14 Fee £'000
Chairman	86	106
Non-Executive Director	39	39
Remuneration Committee Chairmanship additional fee	3	3
Audit Committee Chairmanship additional fee	3	3

Annual Bonus

The Company operates an annual cash incentive scheme for the Executive Directors. Annual bonuses were awarded by the Committee in respect of 2012/2013 having regard to the performance of the Group and personal performance objectives for the year. Details of the annual bonus scheme can be found in the table on page 71.

The amount achieved for the year ended 30 June 2013 against targets for 2012/2013 is as follows:

2012/13 Targets	Amount Achieved for the Year Ended 30 June 2013
Underlying profit before tax performance: 10% of salary payable upon the achievement of 95% of Group profit target rising to 90% of salary payable upon the achievement of 110% of Group profit target	The underlying profit before tax target was £47.0 million on a constant currency basis. Actual underlying profit before tax was £45.5 million reflecting 97% of the profit target resulting in a payment worth 26% of salary
Personal objectives: up to an additional 10% of salary was payable to Executive Directors upon the achievement of personal objectives	Actual performance resulted in payment worth 10% of salary. The objectives are based on key aspects of delivering the Group's strategy
Total Annual Bonus Earned for the Year Ended 30 June 2013	**36% of salary**

Directors' Remuneration Report continued

Long Term Incentive Arrangements and Share Schemes

Long Term Incentive Plan ("LTIP")

LTIP Awards Vesting During the Year Ended 30 June 2013

With respect to the awards granted on 22 December 2010, the performance targets are:

1) an 'underpin' condition based on Group underlying diluted earnings per share performance: no awards will vest if the Group's underlying diluted earnings per share has not grown by at least RPI +3% per annum over the performance period;
2) the Company's TSR performance: assuming that the underpin is achieved, vesting of the awards will be determined by the Company's TSR performance compared to the constituents of the FTSE Small Cap Index at the start of the performance period. The TSR will be calculated by comparing average performance over three months prior to the start and end of the performance period. Vesting will be on the following basis:

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

As set out on page 82 for the three year period to 30 June 2013 the Company's TSR performance was over 98% compared with an 84% TSR for live companies in the top quartile of the comparator group. In addition the Group's underlying diluted EPS increased by 44.09% over the performance period as a result the LTIPs awarded in December 2010 will vest fully.

LTIP Awards Made During the Year Ended 30 June 2013

Awards were granted to the Executive Directors on 5 March 2013, on the following basis:

- 150% of salary for Ian Page; and
- 100% of salary for the other Executive Directors.

In various consultations with our major Shareholders, we have received strong support for the introduction of another performance measure alongside relative TSR under the LTIP to allow for a more balanced assessment of success and to reward the delivery of long term Shareholder value. Following consultation, the Committee resolved that 50% of the LTIP award will continue to be based on the Company's relative TSR performance (relative to the FTSE 250) and 50% will be based on stretching EPS targets. Furthermore, to ensure the quality of earnings and delivery of other key financial performance indicators the vesting of awards under the LTIP will be subject to an additional Return on Capital Employed ("ROCE") underpin.

Following the disposal of the Services Segment, and in line with the LTIP scheme rules, the Committee are in the process of reviewing the performance targets attaching to the LTIP awards granted in March 2013 and intends to consult with major Shareholders by the end of the calendar year in respect of the same.

Recruitment Award for Anne-Francoise Nesmes

On appointment the Committee agreed to award Anne-Francoise Nesmes two LTIP awards to the value of 100% of her base salary:

- 100% to be subject to a performance period ending 30 June 2014 with a further one year's continued employment subject to claw back; and
- 100% to be subject to a performance period ending 30 June 2015. This tranche will be subject to the same performance conditions as those attaching to the LTIP awards granted to the Executive Directors on 5 March 2013.

In the event of a change of control of the Company prior to the vesting dates stated above, the Remuneration Committee has confirmed that it will exercise its discretion to allow the two LTIP awards to vest in full and that the performance conditions would be waived.

The rationale behind the additional LTIP grants was as an offer of partial compensation for the loss of Performance Share Plan and Share Value Plan awards which Anne-Francoise Nesmes had been granted by her previous employer and which lapsed on the cessation of her employment with them. When Anne-Francoise Nesmes commenced her appointment with Dechra the Company was deemed to be in a close period by reason of the disposal of the Services Segment and therefore unable to grant the recruitment award. It is therefore proposed that both awards will be granted as a nil-cost option in early September (once the Company has announced its year end results). The grant will be made outside of the LTIP scheme rules and will be satisfied using market purchase shares.

LTIP Awards for the Year Ending 30 June 2014

To align and focus Ian Page's total remuneration package to reward longer term, sustainable performance the Committee granted a LTIP award to Ian Page of 150% of his salary in March 2013 and has proposed, after due consultation with major Shareholders, to award 200% of salary in respect of future financial years. Shareholder approval will be sought at the Annual General Meeting for the increase in long term incentive opportunity to 200% of salary. However, for the avoidance of doubt this level of award will not be a guaranteed entitlement. Whilst the Committee intends to make awards up to 200% of salary to Ian Page in the future, in line with best practice the Committee will review the level of award to be made each year and this level of award will be dependent on the Committee's assessment of the continued growth and financial success of the Group and Ian Page's personal performance.

The Committee intends to make awards of 150% of base salary to Anne-Francoise Nesmes on an annual basis.

LTIP awards for the other Executive Directors will remain at 100% of base salary.

Payments to Past Directors

There were no payments made to past Directors during the period.

Payments for Loss of Office

A compensation payment was made to Simon Evans during the financial year and equated to 12 months of his salary and benefits plus the use of a company car until the expiry of the lease (31 March 2015). A compensation payment was also made to Bryan Morton during the financial year which equated to two months of his salary. No other compensation payments were made to Executive or Non-Executive Directors during the year.

Directors' Remuneration Report continued

Statement of Directors' Shareholdings and Interests:

Executive Directors

Name	Ordinary Shares No.	Ordinary Shares £'000*	% of Salary
Ian Page	859,751	5,932	1,348%
Tony Griffin (appointed 1 November 2012)	20,077	138	61.9%
Anne-Francoise Nesmes (appointed 22 April 2013)	—	—	—
Ed Torr	424,552	2,929	1,276%

* Calculated using the share price as at 28 June 2013.

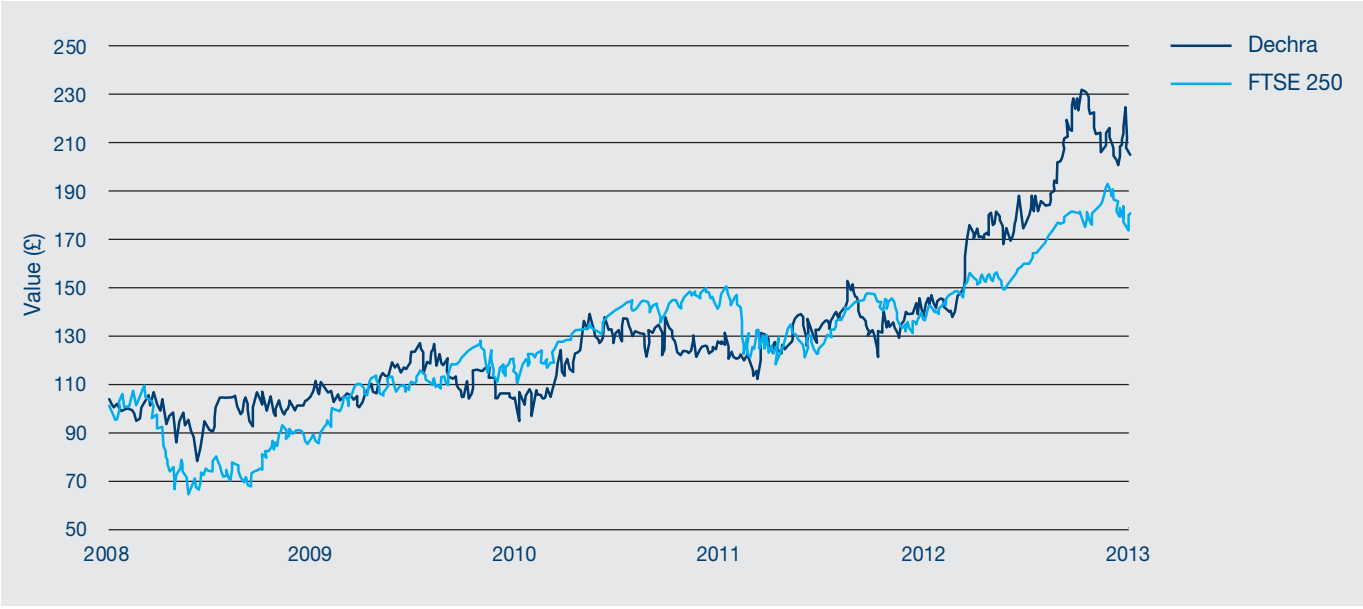
Non-Executive Directors

Name	Ordinary Shares No.	Ordinary Shares £'000*	% of Salary
Mike Redmond	73,417	507	589%
Julian Heslop (appointed 1 January 2013)	5,000	35	88%
Ishbel Macpherson (appointed 1 February 2013)	2,987	21	52%
Dr Chris Richards	7,400	51	131%
Neil Warner	5,448	38	96%

* Calculated using the share price as at 28 June 2013.

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 250 Total Return Index. Throughout the 2012/2013 financial year the Company has been a constituent member of the FTSE 250; for this reason it is considered that the TSR performance of the FTSE 250 Index be represented in this report.



Statement of Voting at Last Annual General Meeting

The Company remains committed to ongoing Shareholder dialogue and takes an active interest in voting outcomes. The following table sets out actual voting in respect of the resolution to approve the Directors' Remuneration Report at the Company's Annual General Meeting on 19 October 2012:

Resolution	Votes for	% of vote	Votes against	% of vote	Votes withheld
Approve Remuneration Report	68,162,190	99.09	623,458	0.91	20,759

Directors' Shareholdings

The beneficial interests of the Directors and their families in the share capital of Dechra Pharmaceuticals PLC as at 30 June 2013 were as follows:

Name	**Ordinary Shares No. 2013**	Ordinary Shares No. 2012
Mike Redmond	**73,417**	73,417
Ian Page	**859,751**	859,751
Tony Griffin (appointed 1 November 2012)	**20,077**	12,077
Anne-Francoise Nesmes (appointed 22 April 2013)	**—**	—
Ed Torr	**424,552**	472,767
Julian Heslop (appointed 1 January 2013)	**5,000**	—
Ishbel Macpherson (appointed 1 February 2013)	**2,987**	—
Dr Chris Richards	**7,400**	7,400
Neil Warner	**5,448**	5,448

There have been no changes in the holdings of the Directors between 30 June and 3 September 2013.

Audited Information

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

Summary of Remuneration

	Salaries & Fees £'000	Bonuses £'000	Other Benefits £'000	**Total 2013 £'000**	Total 2012 £'000
Executive Directors					
Ian Page	419*	158	33	**610**	632
Simon Evans (resigned 18 October 2012)	317†	—	21	**338**	403
Tony Griffin (appointed 1 November 2012)	223	83	7	**313**	—
Anne-Francoise Nesmes (appointed 22 April 2013)	94	21	10	**125**	—
Ed Torr	230	83	17	**330**	375
Non-Executive Directors					
Mike Redmond	86	—	—	**86**	84
Bryan Morton (resigned 9 July 2012)	7†	—	—	**7**	41
Julian Heslop (appointed 1 January 2013)	19	—	—	**19**	—
Ishbel Macpherson (appointed 1 February 2013)	16	—	—	**16**	—
Dr Chris Richards	42	—	—	**42**	38
Neil Warner	42	—	—	**42**	41
	1,495	**345**	**88**	**1,928**	1,614

* This includes a salary supplement of £7,580 paid in lieu of employers' pension contribution in excess of £50,000. Therefore the base salary is £411,283.
† This includes compensation for loss of office. In relation to Bryan Morton's fees the entire amount stated above related to compensation for loss of office. In relation to Simon Evans's salary a total of £241,000 related to compensation for loss of office.

The performance conditions attaching to the annual bonus for 2012/2013 are explained on page 77.

Directors' Remuneration Report continued

Long Term Incentive Plan

Awards made under the Long Term Incentive Plan are as follows

	Award date	Number of shares at 30 June 2012	Granted during the year	Lapsed during the year	Exercised during the year	**Number of shares at 30 June 2013**	Performance period	Share price at date of award pence
Ian Page	24 September 2009	94,575	—	(94,575)	—	**—**	2009-2012	404.10
	22 December 2010	78,656	—	—	—	**78,656**	2010-2013	514.00
	7 September 2011	92,811	—	—	—	**92,811**	2011-2014	455.50
	5 March 2013	—	94,420	—	—	**94,420**	2012-2015	715.00
		266,042	94,420	(94,575)	—	**265,887**		
Simon Evans (resigned 18 October 2012)	24 September 2009	59,447	—	(59,447)	—	**—**	2009-2012	404.10
	22 December 2010	49,441	—	(49,441)	—	**—**	2010-2013	514.00
	7 September 2011	58,338	—	(58,338)	—	**—**	2011-2014	455.50
		167,226	—	(167,226)	—	**—**		
Tony Griffin (appointed 1 November 2012)	5 March 2013	—	34,401	—	—	**34,401**	2012-2015	715.50
		—	34,401	—	—	**34,401**		
Ed Torr	24 September 2009	56,745	—	(56,745)	—	**—**	2009-2012	404.10
	22 December 2010	47,193	—	—	—	**47,193**	2010-2013	514.00
	7 September 2011	55,687	—	—	—	**55,687**	2011-2014	455.50
	5 March 2013	—	32,838	—	—	**32,838**	2012-2015	715.50
		159,625	32,838	(56,745)	—	**135,718**		

The performance conditions attaching to the Long Term Incentive Plan are explained on page 78.

Independent verification has recently been sought from Deloitte in respect of the satisfaction of the performance targets for awards which will vest in December 2013. The 'underpin' condition (the Group's adjusted earnings per share has grown by at least RPI plus 3% per annum over the performance period) has been met; and the Group's TSR performance for the three year period to 30 June 2013 was in the top quartile of the FTSE Small Cap Total Return Index. The 'underpin' condition was tested by the Group and was not verified by Deloitte. Therefore the awards will vest in full.

The aggregate gain made by the Executive Directors on share options exercised during 2013 was £5,187 (2012: £727,997).

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 2012 Number	Exercised Number	Granted Number	Lapsed Number	**At 30 June 2013 Number**
Ian Page	13 October 2008	387	315.02*	Dec 2013	5,316	—	—	—	**5,316**
Simon Evans (resigned 18 October 2012)	13 October 2008	387	315.02*	Dec 2013	5,316	—	—	(5,316)	**—**
Ed Torr	12 October 2009	445	304.92*	Dec 2012	1,785	(1,785)	—	—	**—**
	17 October 2011	478	365.59*	Dec 2014	984	—	—	—	**984**
	16 October 2012		471.00	Dec 2015	—	—	1,146	—	**1,146**
					13,401	(1,785)	1,146	(5,316)	**7,446**

* Outstanding awards were subject to an adjustment following the Rights Issue to reflect the bonus element of the transaction.

Share Price

The middle market price for the Company's shares on 30 June 2013 was 690p and the range of prices during the year was 473p to 780p.

Pension Entitlement

All Executive Directors (excluding Tony Griffin) were members of the Dechra Pharmaceuticals PLC Group Stakeholder personal pension scheme throughout the year. Tony Griffin is a member of the defined pension plan in the Netherlands. 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 2013 £'000**	Contributions 2012 £'000
Ian Page	52	**50**	50
Simon Evans	49	**45**	33
Anne-Francoise Nesmes	42	**7**	—
Tony Griffin	50	**26**	—
Ed Torr	53	**32**	30
		160	113

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.

Tony Griffin is a member of the Basispensioen, a defined benefit scheme established in the Netherlands. The table below sets out the arrangements for Tony Griffin for the period from 1 November 2012 to 30 June 2013.

Accrued benefit at 1 November 2012	€8,260
Increase in accrued benefit excluding inflation allowance	€494
Increase in accrued benefit including inflation allowance	€601
Transfer value of benefit accrued during the period less member contributions	(€8,000)
Transfer value at 1 November 2012	€134,000
Transfer value at 30 June 2013	€127,000
Increase in transfer value over the period after member contribution	(€7,000)

By order of the Board

Dr Christopher Richards
Remuneration Committee Chairman
3 September 2013

Corporate Responsibility, Social, Ethical and Environmental Responsibilities

A responsible approach to our stakeholders and the wider community is considered by the Board to be fundamental to the business. The conduct of the business towards social, environmental, ethical and health and safety issues is recognised to have an impact on our reputation and therefore the implementation and improvement of policies and systems is ongoing.

The Board takes ultimate responsibility for Corporate Social Responsibility ("CSR") and continues to be committed to developing and implementing appropriate policies that create and maintain long term value for all stakeholders. Sound business ethics help to minimise risk, ensure legal compliance and enhance Company efficiency.

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

Social Responsibilities

The Board recognises that the Group has a responsibility to its stakeholders and therefore encourages the business units to contribute to the social and economic welfare of the local communities in which they operate. It recognises that by taking voluntary action in this area it is helping to protect and develop its own business.

As reported in the 2011 Annual Report the Committee established a Group Donations Policy, which became effective 1 July 2011. From this date, the Group will donate up to £10,000 a year to be split between an animal welfare charity, an environmental charity and an employee nominated charity. All employees within the Group are entitled to nominate a charity or a non-commercial organisation. During 2012 the chosen charities were:

Environmental Charity

- Staffordshire Wildlife Trust: As in previous years Dechra has maintained its investment in the Corporate Membership Scheme for the Staffordshire Wildlife Trust (the "Trust"). The continued support provided by the Company has assisted the Trust to continue with their education, conservation and community projects throughout Staffordshire.

Employee Charity

- An employee at DVP EU took part in the Vatternrundan, an organised cycle race in Sweden which has been held over the last 48 years. This year there were over 23,000 cyclists who started the 300km circuit around Lake Vattern. The employee raised £2,500 which was matched by the Company, and the funds donated to Cancer Research UK.

In addition to the annual Group donation each business unit has discretion to allocate funds to local community groups, employee nominated charities and/or animal welfare charities. Below is a selection of what has taken place during the 2012/2013 financial year.

Animal Welfare

- As in previous years, many of our businesses have donated obsolete and/or short dated stock, damaged products and consumables to various charities, ensuring that such stock is not provided to charities where the donation-in-kind could be sold to third parties. DVP UK continued to provide assistance to a charity called Help the Street Cats of Morocco which it has been involved with since 2006 providing supplies of *Atipam*, *Canaura*l, Cleanaural, *Fucithalmic* and *Sedator*. NVS donated dog food to City Dogs Home.

Environment

- DVP EU has continued to donate DKK0.02 for every kilowatt per hour used for the period 2011 to 2015 to Energreen ApS for the construction of new green energy production facilities within Denmark.

Other

- Each year DVP EU nominates a Danish charity. This year they donated DKK2,000 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.
- Dechra Laboratory Services has maintained its links with local schools by offering a number of work experience placements to six children from local schools and four veterinary students.

Business Ethics

The Board expects all of the Group's business activities to be conducted in accordance with the highest standards of ethical conduct and in full compliance with all applicable national and international legislation; in doing so we aim to maintain a reputation for acting responsibly and with integrity.

The Board has formalised its expectations in respect of business conduct into a policy known as The Code of Business Conduct (the "Code"). The Code aims to set a standard of conduct which applies throughout the Group and ensures, amongst other things, that:

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

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

The Dechra Values were launched in June 2011 across the business. Further information can be found on pages 88 to 89 and via the Company's website at www.dechra.com. The Board fully endorses these Values and believes that they encapsulate Dechra's business ethics and set standards that all employees should strive to achieve and ultimately exceed.

Environmental Policy

The Group recognises the importance of good environmental controls. It is the Group's policy to comply with environmental legislation currently in place, adopt responsible environmental practices and give consideration to minimising the impact of its operations on the environment. Dechra has commenced collating the data to comply with the forthcoming Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, which requires all UK quoted companies to report on their greenhouse gas emissions as part of their annual Directors' Report. This will be included in the 2014 Annual Report and Accounts.

In terms of fuel, travel and waste we can report for the 2012/2013 financial year the following changes:

Fuel

With respect to the 2012/2013 financial year, Dechra, as reported in the 2012 Report, has undertaken a review of the Company Car provision with the view of standardising the offering and reducing CO_2 emission. The two lower car bands, which account for over 55% of the Company Car fleet, have been amalgamated and the choice of car has been reduced to two models from the same manufacturer which are generating between 108 and 116 CO_2g per km. In addition band three has been capped at 160 CO_2/km, which account for a further 22% of the car fleet. The light commercial fleet of over 130 delivery vans now integrate an alternative range of vehicles including small VW Caddy vans returning over 46 mpg, as opposed to the previously standard vehicle that delivered only 32 mpg. The HGV fleet has been limited to 53mph and the Gloucester and Tiverton trunking routes have been amalgamated allowing the release of one HGV tractor unit and trailer which has resulted in a saving of least 200 miles per day.

The average miles per gallon as at the end of June 2013 and June 2012 were as follows:

	2013	2012
HGV Fleet	**10.71**	9.92
Transit	**32.34**	32.64

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.

Following the disposal of the Services Segment in August 2013, Dechra will have a reduced car fleet and no commercial vehicles in the UK.

Corporate Responsibility, Social, Ethical and Environmental Responsibilities continued

Travel

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

Waste

In respect of waste, the Group is a registered member of the Waste Packaging Obligations Regulations compliance scheme. The general waste is then sorted for collection by third party waste management companies. Dechra Manufacturing Skipton also actively monitors its recycling rates. This facility continues to comply with, and exceed, effluent discharge standards into local water supplies, which is subject to random monitoring by Yorkshire Water Authority. Standard operating procedures are in place to ensure that all contaminated waste is disposed of under strict controls. Furthermore, all exhaust air is fully filtered from the manufacturing unit before discharge into the environment. DVP EU is legally obliged to submit an environmental impact report to the Danish Ministry of Environment on an annual basis.

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

Health and Safety Policy

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

Each unit within the Group has an active Health and Safety Committee comprising representatives from both management and employees. The workforce nominates employee representatives. These committees meet on a regular basis to carry out a review of risk assessments and standard operating procedures as well as investigating any concerns raised by individual employees. Each site has the requisite number of employees trained in health and safety legislation.

For a number of years the Group has reported Lost Time Accident Frequency Rates ("LTAFR") as a non-financial key performance indicator (see pages 38 to 39). The LTAFR is a calculation of all injuries that would be statutorily reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations ("RIDDOR"), normalised per 100,000 hours worked. This measure provides information to help monitor and control accidents and injuries to the workforce and is widely used as a key performance indicator throughout industry. The Company reports LTAFR on the same basis as in previous years, that is over-three day incidents. Over the course of the last 12 months the number of accidents has decreased from 10 to 5, none of which resulted in a work-related fatality or disability. It is hoped to reduce this further during the 2013/2014 financial year.

Any material health and safety issues or incidents which occur are discussed in detail at both the monthly business unit board meetings and the PLC Board meetings. The discussions include details of the incident that took place and also details of any remedial action which has been taken in order to mitigate or prevent a recurrence of the incident. Twice a year a comprehensive health and safety report is presented at each of the business unit board meetings and subsequently reported to the PLC Board meeting the following month for discussion and review by the Directors.

The Transport Risk Committee assesses risks relating to the Group fleet and establishes control procedures, including regular licence checks of all individuals who are able to drive company vehicles, investigations into all accidents and a disciplinary procedure for speeding offences. During the year an online driver risk assessment was undertaken by all new Company car and commercial vehicle drivers as part of their induction. The results of the assessment enables the Company to identify any drivers at risk and to provide further training to those drivers. It is intended that all drivers will be reassessed every three years. The investment so far in respect of the online driver assessments has had a positive impact on the number of insurance claims with both the frequency and severity of accidents having been reduced. Due to the disposal of the Services Segment this committee has met once during the year and its terms of reference will be reassessed in light of this disposal. All issues raised by this committee are reviewed by the Board as part of the bi-annual health and safety review.

Employees

We recognise that the success of the Group is dependent on our ability to attract, develop, motivate and retain skilled employees. For a number of years the Group has reported labour turnover as a non-financial KPI using a standard formula as follows:

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

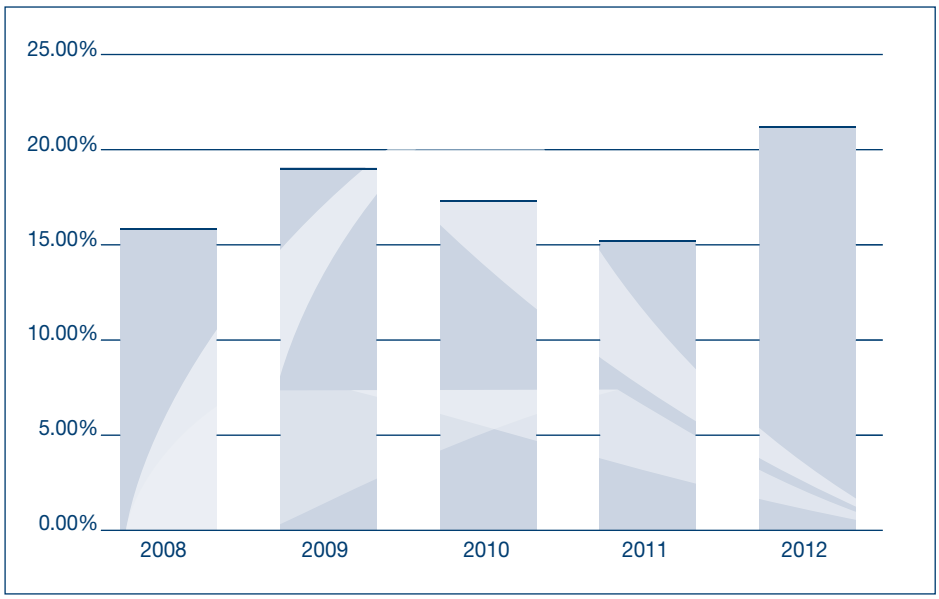
The Group has established a target of no more than 15% Moving Annual Turnover; during the 2012/2013 financial year we achieved 14.84% (2012: 16.10%).

Dechra Pharmaceuticals Manufacturing Skipton is registered with 'Investors in People' and has continued in its commitment to people development through a number of apprentices embarking on the Modern Apprenticeship Scheme. Such employees are assisted in achieving National Vocational Qualifications ("NVQ") as part of their apprenticeship, usually work-based but also involving literacy and numeracy modules.

It is the Company's policy to provide equal recruitment and other opportunities for all employees, regardless of age, sex, sexual orientation, religion, race or disability. The Group gives full consideration to applications from disabled people, where they adequately fulfil the requirements of the role. Where existing employees become disabled, it is the Group's policy whenever practicable to provide continuing employment under the Company's terms and conditions and to provide training and career development whenever appropriate.

The Group continues to encourage employees to share in the growth of the Company through eligibility to participate in the SAYE Scheme. The SAYE Scheme is currently offered to UK employees only; the take-up for the December 2012 grant was 21.59% (December 2011: 15.34%). The graph below shows the percentage of employees who have taken up the SAYE Scheme over the last five years.

Percentage Take-up



Dechra Values

"Values play a vital role in enabling all employees to be aware of what is expected of them"

An effective values system aims to provide the Dechra Group with many benefits, from committed and happy employees to the best possible relationships with suppliers and customers. The Values play a vital role in bringing consistency to all the businesses across the Group, enabling all employees to be aware of what is expected of them and how they can achieve that.

The initiative to define and communicate the Dechra Values began over two years ago. At the time, 75% of FTSE 100 companies had published sets of values, and Dechra recognised that there were many benefits to be drawn from creating and disseminating their own values across the Group. A steering group was formed in 2011 with HR and senior management involvement from each business within the Group. One of the aims of this group being to define a set of values which reflected the best aspects of personality and behaviour in Dechra, whilst also providing standards that could be used as a tool in managing and measuring employee performance.

The discussions of the steering group led to the creation of the six Dechra Values: Dedication, Enjoyment, Courage, Honesty, Relationships and Ambition (conveniently spelling Dechra), which were launched Group wide in July 2011. Within a year of the launch all employees across Dechra had received a Standards Guide along with training on the Values, explaining what each Value meant for them individually and how it should be applied alongside examples of behaviour that (i) did not meet the standard, (ii) met the standard, and (iii) exceeded the standard.

The Values have rolled out across all territories within which we have a legal entity, being initially translated into Danish, Spanish and French, and subsequently being integrated into newly acquired companies. Dutch and German translations will soon follow to allow for the Values to be rolled out to the more recently acquired *Eurovet* business. To demonstrate the ongoing commitment to these ideals, they have also become part of the recruitment and induction process, ensuring new recruits reflect and embrace the Values at every level of the business.

Over the last 12 months, work has been ongoing to solidify the use of the Values across the Group with a number of developments in progress, most notably a pilot programme for the Performance and Development Review ("PDR") process. This pilot, which came to an end in June 2013, trialled Dechra's first universal appraisal scheme to 100 people, and met with very positive feedback from those involved.

The PDR process involves three elements, with employees being measured against (i) their own role or Accountabilities, (ii) personal objectives (created uniquely for each employee) and (iii) the Dechra Values. Following the success of the pilot, it is intended that the PDR process will be spread further throughout the Group, demonstrating the integral part that the Values will play in career development at Dechra.

"By improving performance at an individual and team level, the financial and operating performance can only benefit from the Group wide investment in the Values that has taken place so far and that will continue to increase"

The PDR process is just one of a number of ways in which we can focus on "making the Values live". A branded marketing campaign is about to launch with the aim of increasing the visibility of the Values, and all employees will be made aware of the progress of the initiative to date.

Other future activity will see the Values become more prominent in everyday team briefings, workshops held to delve deeper and increase understanding of the Values, a growing presence on the intranet, and general activities to keep team members engaged with the Values in their day-to-day working life.

There is also the ambition for a recognition scheme to reward exceptional employees in future, reflecting the positive effects that the Values initiative has had on individuals and on the business as a whole. Whilst not measurable at its current stage, by improving performance at an individual and team level, the financial and operating performance can only benefit from the Group wide investment in the Values that has taken place so far and that will continue to increase.

Directors' Report: Other Disclosures

Principal Activities and Strategic Report and Operating Review

The Company acts as a holding company to all the Group's subsidiaries. Following the disposal of the Services Segment on 16 August 2013 to Patterson Companies, Inc. the Group now operates under three segments:

- European Pharmaceuticals: markets and sells 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; and
- Research and Development: develops and licenses Dechra's own branded veterinary product portfolio of novel and generic pharmaceuticals and specialist pet diets.

The Chairman's Statement and the Directors' Strategic Report and Operating Review can be found on pages 3 to 47 and includes:

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

Results and Dividends

The results for the year and financial position at 30 June 2013 are shown in the Consolidated Income Statement on page 98 and Consolidated Statement of Financial Position on page 100. The Directors recommend the payment of a final dividend of 9.66 pence per share which, if approved by Shareholders, will be paid on 22 November 2013 to Shareholders registered at 8 November 2013. The shares will become ex-dividend on 6 November 2013. An interim dividend of 4.34 pence per share was paid on 9 April 2013, making a total dividend for the year of 14.00 pence (2012: 12.27 pence restated for the bonus element of the Rights Issue). The total dividend payment is £12,199,000 (2012: £10,125,000).

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 strengthen further the Group's competitive position. Further information in relation to product development can be found on pages 23 to 25. The expense on this activity for the year ended 30 June 2013 was £7,961,000 (2012: £5,735,000) and a further £1,584,000 (2012: £447,000) 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 2013, the Group had an average of 49 days (2012: 71 days) purchases outstanding in creditors (including assets held for sale). The Company has an average of nil days (2012: nil days) purchases outstanding in creditors.

Acquisitions

There have been no acquisitions during the year under review.

Disposals

The disposals of the Services Segment was completed on 16 August 2013. Refer to note 29 to the Accounts on page 145 for further details.

Share Capital

The issued share capital of the Company for the year is set out in note 23 to the Accounts on page 137. As at the end of the financial year, 87,157,444 fully paid ordinary shares were in issue which included 287,268 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 19 October 2012, the Company was authorised to purchase up to 8,687,017 of its ordinary shares, representing 10% of the issued share capital of the Company as at 10 September 2012. 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 2012 Annual General Meeting and resolutions to renew these authorities will be proposed at the 2013 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 Conduct Authority, the Company had been notified of the following interests exceeding the 3% notification threshold as at the end of the financial year and a date not more than one month before the date of the notice of the Annual General Meeting.

	30 June 2013		20 August 2013	
	Aggregate voting rights	Percentage	Aggregate voting rights	Percentage
Schroder Investment Management	10,393,209	11.93	10,218,133	11.72
Fidelity Investments	6,071,481	6.97	6,718,524	7.71
Legal & General Investment Management	4,468,376	5.13	4,321,271	4.96
NBIM	4,419,600	5.07	4,321,540	4.96
Invesco Perpetual	3,807,459	4.37	3,813,206	4.38
Threadneedle Investments	3,709,746	4.26	3,849,921	4.42
Aberdeen Asset Management	3,635,456	4.17	4,129,749	4.74
BlackRock	3,447,401	3.96	3,434,649	3.94
Rathbones	3,083,776	3.54	N/A	Below 3%

Directors' Report: Other Disclosures continued

Change of Control/Significant Agreements

As detailed in the Going Concern Statement on page 58 the Group has bank facilities with a syndicate of banks comprising Lloyds TSB Bank plc, Barclays Bank PLC, Svenska Handelsbanken AB (PUBL) and HSBC Bank Plc (the "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. With the exception of Anne-Francoise Nesmes the Remuneration Committee has confirmed that it would exercise its own discretion to vest in full should a change of control of the Company occur before the LTIP awards vest.

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 48 to 49. 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 50 to 60, 62 and 68.

During the financial year under review the following Board changes occurred:

- Bryan Morton resigned from his position as Non-Executive Director;
- Julian Heslop and Ishbel Macpherson were appointed to the Board as Non-Executive Directors on 1 January and 1 February 2013 respectively; and
- Tony Griffin and Anne-Francoise Nesmes were appointed to the Board as Executive Directors on 1 November 2012 and 22 April 2013 respectively.

As at May 2013 Neil Warner has served 10 years as a Non-Executive Director and has expressed an intention to retire from the Board at the forthcoming Annual General Meeting.

Under the Company's Articles of Association Julian Heslop, Ishbel Macpherson, Tony Griffin and Anne-Francoise Nesmes will offer themselves for election as Directors at the forthcoming Annual General Meeting. Under the provisions of the UK Corporate Governance Code, all the remaining Directors will retire at the forthcoming Annual General Meeting and offer themselves for re-election.

The interests of the Directors in the share capital of the Company are shown in the Remuneration Report on pages 67 to 83. During the year no Director had a disclosable material interest in any contract or arrangement with the Company or any of its subsidiaries. Information in relation to the Directors' remuneration is disclosed in the Remuneration Report.

The Articles of Association state that a Director may be appointed by an ordinary resolution of the Shareholders or by the Directors, either to fill a vacancy or as an addition to the existing Board but so that the total number of Directors does not exceed the maximum number of Directors allowed pursuant to the Articles of Association. The maximum number of Directors currently allowed pursuant to the Articles of Association is ten.

The Articles of Association also state that the Board of Directors is responsible for the management of the business of the Company and in doing so may exercise all the powers of the Company subject to the provision of relevant legislation and the Company's constitutional documentation. The powers of the Directors set out in the Articles of Association include those in relation to the issue and buy-back of shares.

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

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 94.

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 £7,250 (2012: £17,796). Further details of donations made by the Group are given on page 84.

Political Donations and Expenditure
No political donations were made during the year ended 30 June 2013. 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.

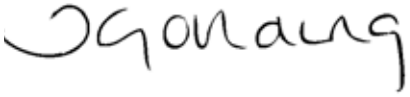
Events After the Reporting Period
On 10 July 2013 the Company entered into a conditional agreement for the sale of its Services Segment, namely, *NVS*, Dechra Laboratory Services and Dechra Specialist Laboratories to Patterson Companies, Inc for a total effective consideration of £87.5 million. The sale completed on 16 August 2013.

Auditor
In light of organisational changes within KPMG, the Directors have agreed that KPMG Audit Plc, a wholly owned subsidiary of KPMG LLP, step down as Auditor of the Company at the Annual General Meeting and that a resolution to appoint KPMG LLP as Auditor and to authorise the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

Audit Information
Each of the Directors who held office at the date of the approval of the Directors' Report confirms that, so far as he or she is aware, there is no relevant audit information of which the Auditor is unaware, and each Director has taken all steps that he or she ought to have undertaken as a Director to make himself or herself aware of any relevant audit information and to establish that the Auditor is aware of that information.

Annual General Meeting
The 2013 Annual General Meeting of the Company will be held at 4.00 pm on 17 October 2013 at its offices at 24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich CW9 7UA. 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
3 September 2013

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

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards 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 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 and the Directors' Strategic Report and Operating Review, 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 Officer
3 September 2013

Anne-Francoise Nesmes
Chief Financial Officer
3 September 2013

Financials Contents

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 2013 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Shareholders' Equity, 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 94, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2013 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.

Matters on Which We Are Required to Report by Exception

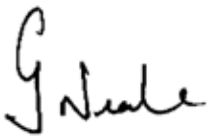
We have nothing to report in respect of the following:

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.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 58, in relation to going concern;
- the part of the Corporate Governance Statement on pages 50 to 60 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.



Graham Neale (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
3 September 2013

Consolidated Income Statement

For the year ended 30 June 2013

	Note	2013 Underlying £'000	2013 Non-underlying items* (notes 4 & 5) £'000	2013 Total £'000	2012 (Restated)‡ Underlying £'000	2012 (Restated)‡ Non-underlying items* (notes 4 & 5) £'000	2012 (Restated)‡ Total £'000
Revenue	2	**189,176**	**—**	**189,176**	124,330	—	124,330
Cost of sales		**(88,470)**	**—**	**(88,470)**	(53,220)	—	(53,220)
Gross profit		**100,706**	**—**	**100,706**	71,110	—	71,110
Selling, general and administrative expenses		**(53,637)**	**(20,772)**	**(74,409)**	(39,830)	(15,273)	(55,103)
Research and development expenses		**(7,961)**	**—**	**(7,961)**	(5,735)	—	(5,735)
Operating profit	2	**39,108**	**(20,772)**	**18,336**	25,545	(15,273)	10,272
Finance income	3	**196**	**—**	**196**	80	—	80
Finance expense	4	**(5,757)**	**(297)**	**(6,054)**	(3,805)	(435)	(4,240)
Profit before taxation — continuing operations	6	**33,547**	**(21,069)**	**12,478**	21,820	(15,708)	6,112
Income tax expense	8	**(8,083)**	**6,455**	**(1,628)**	(5,791)	3,584	(2,207)
Profit for the year — continuing operations		**25,464**	**(14,614)**	**10,850**	16,029	(12,124)	3,905
Profit for the year — discontinued operations	29	**8,449**	**(1,386)**	**7,063**	8,273	(429)	7,844
Profit for the year attributable to owners of the parent		**33,913**	**(16,000)**	**17,913**	24,302	(12,553)	11,749
Earnings per share							
Basic	10			**20.59p**			15.65p†
— continuing operations				**12.47p**			5.20p
— discontinued operations				**8.12p**			10.45p
Diluted	10			**20.45p**			15.60p†
— continuing operations				**12.39p**			5.18p
— discontinued operations				**8.06p**			10.42p
Dividend per share (interim paid and final proposed for the year)	9			**14.00p**			12.27p†

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

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

‡ Restated for discontinued operations.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2013

	2013 £'000	2012 £'000
Profit for the year	**17,913**	11,749
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss:		
Actuarial loss on defined benefit pension scheme	**(772)**	—
	(772)	—
Items that may be reclassified subsequently to profit or loss:		
Effective portion of changes in fair value of cash flow hedges	**(185)**	(419)
Cash flow hedges recycled to income statement	**557**	429
Foreign currency translation differences for foreign operations	**12,789**	(8,434)
Income tax relating to components of other comprehensive income	**(86)**	(2)
	13,075	(8,426)
Total comprehensive income for the period attributable to owners of the parent	**30,216**	3,323

Consolidated Statement of Financial Position

At 30 June 2013

	Note	2013 £'000	2012 £'000
ASSETS			
Non-current assets			
Intangible assets	11	**219,596**	225,872
Property, plant and equipment	12	**16,074**	16,720
Total non-current assets		**235,670**	242,592
Current assets			
Inventories	15	**29,199**	57,281
Trade and other receivables	16	**27,682**	72,113
Cash and cash equivalents	17	**32,791**	32,435
Assets of disposal group held for sale	29	**89,784**	—
Total current assets		**179,456**	161,829
Total assets		**415,126**	404,421
LIABILITIES			
Current liabilities			
Borrowings	20	**(9,750)**	(5,106)
Trade and other payables	18	**(28,483)**	(79,863)
Deferred and contingent consideration	28	**(957)**	(10,337)
Current tax liabilities	19	**(10,368)**	(8,155)
Liabilities of disposal group held for sale	29	**(53,961)**	—
Total current liabilities		**(103,519)**	(103,461)
Non-current liabilities			
Borrowings	20	**(103,840)**	(114,046)
Deferred and contingent consideration	28	**(4,971)**	(3,526)
Employee benefit obligations	21	**(996)**	(363)
Deferred tax liabilities	14	**(27,184)**	(29,343)
Total non-current liabilities		**(136,991)**	(147,278)
Total liabilities		**(240,510)**	(250,739)
Net assets		**174,616**	153,682
EQUITY			
Issued share capital	23	**872**	869
Share premium account		**123,485**	122,642
Hedging reserve		**—**	(286)
Foreign currency translation reserve		**9,106**	(3,683)
Merger reserve		**1,770**	1,770
Retained earnings		**39,383**	32,370
Total equity attributable to equity holders of the parent		**174,616**	153,682

The financial statements were approved by the Board of Directors on 3 September 2013 and are signed on its behalf by:

Ian Page
Chief Executive Officer
3 September 2013

Anne-Francoise Nesmes
Chief Financial Officer
3 September 2013

Company number: 3369634

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 30 June 2013

	Attributable to owners of the parent						
Year ended 30 June 2012	Issued share capital £'000	Share premium account £'000	Hedging reserve £'000	Foreign currency translation reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
At 1 July 2011	664	63,559	(294)	4,751	1,770	27,883	98,333
Profit for the period	—	—	—	—	—	11,749	11,749
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	(335)	—	—	—	(335)
Foreign currency translation differences for foreign operations	—	—	—	(8,434)	—	—	(8,434)
Cash flow hedges recycled to income statement, net of tax	—	—	343	—	—	—	343
Total comprehensive income	—	—	8	(8,434)	—	11,749	3,323
Transactions with owners							
Dividends paid	—	—	—	—	—	(8,325)	(8,325)
Share-based payments	—	—	—	—	—	1,063	1,063
Shares issued	205	59,083	—	—	—	—	59,288
Total contributions by and distributions to owners	205	59,083	—	—	—	(7,262)	52,026
At 30 June 2012	869	122,642	(286)	(3,683)	1,770	32,370	153,682
Year ended 30 June 2012							
At 1 July 2012	869	122,642	(286)	(3,683)	1,770	32,370	153,682
Profit for the period	—	—	—	—	—	17,913	17,913
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	(140)	—	—	—	(140)
Foreign currency translation differences for foreign operations	—	—	—	12,789	—	—	12,789
Actuarial loss on defined benefit pension scheme	—	—	—	—	—	(772)	(772)
Cash flow hedges recycled to income statement, net of tax	—	—	426	—	—	—	426
Total comprehensive income	—	—	286	12,789	—	17,141	30,216
Transactions with owners							
Dividends paid	—	—	—	—	—	(11,170)	(11,170)
Share-based payments	—	—	—	—	—	1,042	1,042
Shares issued	3	843	—	—	—	—	846
Total contributions by and distributions to owners	3	843	—	—	—	(10,128)	(9,282)
At 30 June 2013	872	123,485	—	9,106	1,770	39,383	174,616

Hedging Reserve

The hedging reserve represents the cumulative fair value gains or losses on derivative financial instruments for which cash flow hedge accounting has been applied.

Foreign Currency Translation Reserve

The foreign currency translation reserve contains exchange differences on the translation of subsidiaries with a functional currency other than Sterling and exchange gains or losses on the translation of liabilities that hedge the Company's net investment in foreign subsidiaries.

Merger Reserve

The merger reserve represents the excess of fair value over nominal value of shares issued in consideration for the acquisition of subsidiaries where statutory merger relief has been applied in the financial statements of the Parent Company.

Consolidated Statement of Cash Flows

For the year ended 30 June 2013

	Note	2013 £'000	2012 £'000
Cash flows from operating activities			
Profit for the period		**17,913**	11,749
Adjustments for:			
Depreciation	12	**2,795**	1,584
Amortisation and impairment	11	**19,876**	12,762
Loss on disposal of intangible assets	6	**—**	47
Loss/(profit) on sale of property, plant and equipment	6	**462**	(45)
Expenses related to disposal of discontinued operations, net of tax	29	**1,357**	—
Finance income	3	**(196)**	(219)
Finance expense	4	**6,054**	4,289
Equity settled share-based payment expense	24	**821**	1,001
Income tax expense	8	**4,167**	5,071
Operating cash flow before changes in working capital		**53,249**	36,239
Decrease/(increase) in inventories		**1,299**	(4,846)
Increase in trade and other receivables		**(9,456)**	(1,827)
Increase/(decrease) in trade and other payables		**4,302**	(438)
Cash generated from operating activities before interest and taxation		**49,394**	29,128
Interest paid		**(4,788)**	(2,645)
Income taxes paid		**(7,741)**	(7,241)
Net cash inflow from operating activities		**36,865**	19,242
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**11**	50
Interest received		**74**	219
Acquisition of subsidiaries	28	**(10,333)**	(112,221)
Purchase of property, plant and equipment	12	**(3,665)**	(1,645)
Capitalised development expenditure	11	**(1,584)**	(447)
Purchase of other intangible non-current assets	11	**(3,871)**	(6,300)
Net cash outflow from investing activities		**(19,368)**	(120,344)
Cash flows from financing activities			
Proceeds from the issue of share capital	23	**846**	60,575
Share issue expenses	23	**—**	(1,287)
New borrowings		**—**	120,000
Expenses of raising new borrowings		**—**	(2,600)
Repayment of borrowings		**(5,653)**	(64,328)
Resetting of foreign currency borrowings		**(2,289)**	(327)
Dividends paid	9	**(11,170)**	(8,325)
Net cash (outflow)/inflow from financing activities		**(18,266)**	103,708
Net (decrease)/increase in cash and cash equivalents		**(769)**	2,606
Cash and cash equivalents at start of period	17	**32,435**	30,496
Exchange differences on cash and cash equivalents		**1,125**	(667)
Cash and cash equivalents at end of period	17	**32,791**	32,435
Reconciliation of net cash flow to movement in net borrowings			
Net (decrease)/increase in cash and cash equivalents		**(769)**	2,606
Repayment of borrowings		**5,653**	64,328
New borrowings		**—**	(120,000)
Expenses of raising new borrowings		**—**	2,600
New finance leases		**(190)**	(1,010)
Exchange differences on cash and cash equivalents		**1,125**	(667)
Retranslation of foreign borrowings		**687**	(429)
Other non-cash changes		**(588)**	(54)
Movement in net borrowings in the period		**5,918**	(52,626)
Net borrowings at start of period	25	**(86,717)**	(34,091)
Net borrowings at end of period	25	**(80,799)**	(86,717)

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 2013 comprise the Company and its subsidiaries.

(a) Statement of Compliance

These consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union. The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP and they are separately presented on pages 147 to 155.

(b) Basis of Preparation

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and Operating Review on pages 3 to 47. The Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Refer to the Corporate Governance Report on page 58 for details.

The consolidated financial statements are presented in Sterling, rounded to the nearest thousand. They are prepared on a going concern basis and under the historical cost convention, except where International Financial Reporting Standards require an alternative treatment. The principal variations relate to derivative financial instruments, cash settled share-based transactions and contingent consideration that are stated at fair value.

The preparation 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.

Discontinued Operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification of a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is presented as if the operation had discontinued from the start of the comparative period. The disposal of the Services Division, as described in note 29, gives rise to a discontinued operation and restatement of comparatives.

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

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

Impairment of Goodwill and Indefinite Life Intangible Assets

The Group determines whether goodwill and indefinite life assets are impaired at least on an annual basis. This requires an estimation of the value in use of the cash generating units to which they are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further detail on the assumptions used in determining value in use calculations is provided in note 13.

Valuation of Intangible Assets

Product rights and customer relationships that are acquired by the Group as part of a business combination are stated at fair value at the date of acquisition less accumulated amortisation and impairment losses.

Fair value at the date of acquisition reflects management's judgement of the fair value of the individual intangible asset calculated by reference to the net present value of future benefits accruing to the Group from the utilisation of the asset, discounted at an appropriate discount rate.

Notes to the Consolidated Financial Statements continued

1. Accounting Policies continued

Impairment of Receivables

The Group has estimated impairment of receivables by assessing recoverability of amounts due on a customer by customer basis. As described in note 22, credit risk is not highly concentrated for continuing operations.

Capitalisation of Development Costs

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

Adoption of New and Revised Standards

The following standards and interpretations are applicable to the Group and have been adopted in the current period as they are mandatory for the year ended 30 June 2013 but either have no material impact on the result or net assets of the Group or are not applicable.

- Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income' — amends how components of other income are presented. The amendments require the grouping of other comprehensive income into items that might be reclassified to the income statement in subsequent periods and items that will not be reclassified to the income statement in subsequent periods.
- Amendment to IAS 12 'Income Taxes — Deferred Tax: Recovery of Underlying Assets' — introduces a presumption for deferred tax purposes that recovery of the carrying amount of an investment property will normally be through sale.

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 2013, have been adopted in the year.

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

New Standards and Interpretations not yet Adopted

The following standards and interpretations have been published, endorsed by the EU, and are available for early adoption, but have not yet been applied by the Group in these financial statements.

- IFRS 10 'Consolidated Financial Statements' — effective for annual periods beginning on or after 1 January 2014.
- IFRS 11 'Joint Arrangements' — effective for annual periods beginning on or after 1 January 2014.
- IFRS 12 'Disclosure of Interests in Other Entities' — effective for annual periods beginning on or after 1 January 2014.
- IFRS 13 'Fair Value Measurements' — effective for annual periods beginning on or after 1 January 2013.
- IAS 27 (Revised) 'Separate Financial Statements' — effective for annual periods beginning on or after 1 January 2014.
- Amendment to IAS 19 'Employee Benefits' — effective for annual periods beginning on or after 1 January 2013.

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

1. Accounting Policies continued

(c) Basis of Consolidation

Subsidiary Undertakings

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

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

The financial statements of all subsidiary undertakings are prepared to the same reporting date as the Company. During the 2012/2013 financial year the reporting dates of the previously acquired *Eurovet* companies have been brought in line with the Company.

(d) Foreign Currency Translation

(i) Functional and Presentational Currency

The consolidated financial statements are presented in Sterling, which is the Group's presentational currency and are rounded to the nearest thousand, except where it is deemed relevant to disclose the amounts to the nearest pound. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

(ii) Foreign Currency Translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, with the exception of differences on transactions that are subject to effective cash flow hedges, which are recognised in other comprehensive income.

(iii) Foreign Operations

The assets and liabilities of foreign operations are translated to Sterling at the closing rate at the reporting date. The income and expenses are translated to Sterling at the average rate for the period being reported. Foreign currency differences are recognised in other comprehensive income in the foreign currency translation reserve, a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. On disposal of a foreign entity, accumulated exchange differences previously recognised in other comprehensive income are recognised in the income statement in the same period in which the gain or loss on disposal is recognised.

(e) Accounting for Financial Assets, Derivative Financial Instruments and Hedging Activities

The Group classifies its financial assets into the following categories: held for trading financial assets and loans and receivables. The classification depends on the purpose for which the assets are held.

Management determines the classification of its financial assets at initial recognition in accordance with IAS 39 Financial Instruments: Recognition and Measurement and re-evaluates this designation at every reporting date for financial assets other than those held at fair value through the income statement.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Gains and losses (both realised and unrealised) arising from changes in the value of financial assets held at fair value through the income statement are included in the income statement in the period in which they arise.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Notes to the Consolidated Financial Statements continued

1. Accounting Policies continued

Held for Trading Financial Assets

This category has two sub-categories: financial assets held for trading and those designated at fair value through the income statement at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives that do not qualify for hedge accounting are also categorised as held for trading. Held for trading financial assets are recognised and subsequently carried at fair value.

Derivative Financial Instruments

The Group uses derivative financial instruments to manage its exposure to foreign exchange and interest rate risks. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are remeasured to fair value at each reporting date.

Cash Flow Hedges

Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognised in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised immediately in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in other comprehensive income is transferred to the income statement in the same period that the hedged item affects profit or loss.

Trade Receivables

Trade receivables are recognised and carried at original invoice amount less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is recognised in the income statement in operating expenses.

Trade and Other Payables

Trade and other payables are initially recognised at fair value and subsequently at amortised cost.

Borrowings and Borrowing Costs

Borrowings are recognised initially at fair value net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

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

1. Accounting Policies continued

(f) Property, Plant and Equipment

Owned Assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (j)).

Leased Assets

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by finance leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Land is not depreciated. Assets in the course of construction are not depreciated until the date the assets become available for use. The estimated useful lives are as follows:

- freehold buildings 25 years
- short leasehold buildings period of lease
- plant and fixtures 3–10 years
- motor vehicles 4 years

The residual value, if not insignificant, is reassessed annually.

(g) Intangible Assets

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred since 1 July 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the separable assets, liabilities and contingent liabilities acquired.

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

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

Acquisitions after this date fall under the provisions of 'Revised IFRS 3 Business Combinations (2009)'. For these acquisitions, transaction costs, other than share and debt issue costs, are expensed as incurred and subsequent adjustments to the fair value of consideration payable are recognised in the income statement.

Contingent consideration is measured at fair value based on an estimate of the expected future payments.

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

Notes to the Consolidated Financial Statements continued

1. Accounting Policies continued

Research and Development Costs

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

The Group is also engaged in development activity with a view to bringing new pharmaceutical products to market. Internally generated costs of development are capitalised in the consolidated statement of financial position unless those costs cannot be measured reliably or it is not probable that future economic benefits will flow to the Group, in which case the relevant costs are expensed to the income statement as incurred. Due to the strict regulatory process involved, there is inherent uncertainty as to the technical feasibility of development projects often until regulatory approval is achieved, with the possibility of failure even at a late stage. The Group considers that this uncertainty means that the criteria for capitalisation are not met unless it is highly probable that regulatory approval will be achieved and the project is commercially viable.

Where development costs are capitalised, the expenditure includes the cost of materials, direct labour and an appropriate proportion of overheads.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Acquired Intangible Assets

Intangible assets recognised as a result of a business combination are stated at fair value at the date of acquisition less accumulated amortisation and impairment losses.

Other Intangible Assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and other intangibles is recognised in the income statement as an expense is incurred.

Subsequent Expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each consolidated statement of financial position date. Other intangible assets are amortised from the date that they are available for use. The estimated useful lives are as follows:

software	5 years
capitalised development costs	5–10 years or period of patent
patent rights	Period of patent
marketing authorisations	Indefinite life
product rights	10–15 years
customer relationships	10 years

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in, first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

1. Accounting Policies continued

(i) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(j) Impairment

The carrying amounts of the Group's assets are reviewed at each consolidated statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each consolidated statement of financial position date and when there is an indication that the asset is impaired.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units (group of units), and then to reduce the carrying amount of the other assets in the units (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Dividends

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

(l) Employee Benefits

Pensions

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

Dechra Veterinary Products SAS and Dechra Veterinary Products BV participate in state-run pension arrangements. These are not considered to be material to the Group financial statements and are accounted for as defined contribution schemes, with contributions being recognised as an expense in the income statement as incurred.

The Group sponsors defined benefit arrangements in certain countries, the most material being a defined benefit pension plan in the Netherlands. This is a funded career average pay arrangement, where pensionable salary is subject to a cap. The arrangement is financed through an insurance contract.

Notes to the Consolidated Financial Statements continued

1. Accounting Policies continued

The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods.

That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The liability discount rate is the yield at the Statement of Financial Position date using AA rated corporate bonds that have maturity dates approximating to the terms of the group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses that arise in calculating the Group's obligation in respect of a scheme are recognised immediately in reserves and reported in the consolidated Statement of Comprehensive Income. Where the calculation results in a benefit to the Group, the asset recognised is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

Share-based Payment Transactions

The Group operates a number of equity settled share-based payment programmes that allow employees to acquire shares in the Company. The Group also operates a Long Term Incentive Plan for Directors and Senior Executives.

The fair value of shares or options granted is recognised as an employee expense over the vesting period on a straight-line basis in the income statement with a corresponding movement to equity reserves. Fair values are determined by use of an appropriate pricing model and are determined by reference to the fair value of the options granted. The amount to be expensed over the vesting period is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

At each consolidated statement of financial position date, the Group revises its estimates of the number of share incentives that are expected to vest. The impact of the revisions of original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity reserves, over the remaining vesting period.

The fair values of grants under the Long Term Incentive Plan have been determined using the Monte Carlo simulation model.

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.

1. Accounting Policies continued

(n) Leases

Operating Leases

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

Finance Leases

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the effective interest method.

(o) Net Financing Costs

Net financing costs comprise interest payable on borrowings, unwinding of discount on provisions, interest receivable on funds invested, gains and losses on hedging instruments that are recognised in the income statement (see accounting policy (e)) and gains or losses on the retranslation of financial assets and liabilities denominated in foreign currencies. Interest income is recognised in the income statement as it accrues. The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(p) Basis of Charge for Taxation

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognised in the income statement except to the extent that it relates to a business combination or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the consolidated statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the consolidated statement of financial position liability method and represents the tax payable or recoverable on most temporary differences which arise between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes (the tax base). Temporary differences are not provided on: goodwill that is not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and do not arise from a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, and is based upon tax rates enacted or substantively enacted at the consolidated statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is not probable that the related tax benefit will be realised against future taxable profits. The carrying amounts of deferred tax assets are reviewed at each consolidated statement of financial position date.

Current and deferred tax credits received in respect of share-based payments are recognised in the Income Statement to the extent that they do not exceed the standard rate of taxation on the Income Statement charge for share-based payments. Credits in excess of the standard rate of taxation are recognised directly in equity.

Notes to the Consolidated Financial Statements continued

1. Accounting Policies continued

(q) Earnings per Share

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

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

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

2. Operating Segments

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

The Services Segment comprises National Veterinary Services, Dechra Laboratory Services and Dechra Specialist Laboratories. This Segment services UK veterinary practices in both the companion animal and livestock sectors. On 10 July 2013, the Group announced its intention to dispose of the Services businesses. The disposal is consistent with the Group's long term policy to focus its activities on the manufacture and marketing of pharmaceutical products. The Segment was not a discontinued operation or classified as held for sale at 30 June 2012 and the comparative consolidated income statement has been represented to show the discontinued operation separately from continuing operations. Refer to note 29 for further details, and segmental analysis in relation to the Services Division.

The European Pharmaceuticals Segment comprises Dechra Veterinary Products EU, *Eurovet* and Dechra Pharmaceuticals Manufacturing. Dechra Pharmaceuticals Manufacturing manufactures the vast majority of our own branded licensed pharmaceutical products, which are marketed through DVP EU and *Eurovet*. This Segment operates internationally and specialises in companion animal products and has expanded into the food producing animal market following the acquisition of *Eurovet*.

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.

2. Operating Segments continued

Reconciliations of reportable segment revenues, profit or loss and liabilities and other material items:

		2013 £'000	2012 £'000
Revenue by segment			
European Pharmaceuticals	— total	**168,684**	104,764
US Pharmaceuticals	— total	**20,889**	20,363
	— intersegment	**(397)**	(797)
		189,176	124,330
Operating profit/(loss) by segment			
European Pharmaceuticals		**45,819**	28,904
US Pharmaceuticals		**5,585**	5,863
Pharmaceuticals Research and Development		**(7,961)**	(5,735)
Segment operating profit		**43,443**	29,032
Corporate and other unallocated costs		**(4,335)**	(3,487)
Underlying operating profit		**39,108**	25,545
Amortisation of acquired intangibles		**(18,195)**	(10,833)
Rationalisation costs		**(2,577)**	(2,125)
Acquisition costs		**—**	(2,315)
Total operating profit		**18,336**	10,272
Finance income		**196**	80
Finance expense		**(6,054)**	(4,240)
Profit before taxation — continuing operations		**12,478**	6,112
Total liabilities by segment			
Services (classified as held for sale in 2013)		**(53,961)**	(55,244)
European Pharmaceuticals		**(24,985)**	(22,058)
US Pharmaceuticals		**(6,602)**	(14,221)
Pharmaceuticals Research and Development		**(804)**	(685)
Segment liabilities		**(86,352)**	(92,208)
Corporate loans and revolving credit facility		**(113,110)**	(118,229)
Corporate accruals and other payables		**(3,496)**	(2,804)
Current and deferred tax liabilities		**(37,552)**	(37,498)
		(240,510)	(250,739)
Additions to intangible non-current assets by segment			
Services (classified as held for sale in 2013)		**88**	211
European Pharmaceuticals		**1,132**	121,140
US Pharmaceuticals		**3,143**	—
Pharmaceuticals Research and Development		**1,092**	447
		5,455	121,798

Notes to the Consolidated Financial Statements continued

2. Operating Segments continued

	2013 £'000	2012 £'000
Additions to Property, Plant and Equipment by segment		
Services (classified as held for sale in 2013)	**733**	484
European Pharmaceuticals	**2,622**	10,469
US Pharmaceuticals	**18**	10
Pharmaceuticals Research and Development	**69**	136
Corporate and central costs	**223**	—
	3,665	11,099
Depreciation and amortisation by segment		
Services (included within discontinued operations)	**757**	700
European Pharmaceuticals	**18,360**	10,524
US Pharmaceuticals	**3,112**	2,800
Pharmaceuticals Research and Development	**426**	322
Corporate and central costs	**16**	—
	22,671	14,346

Geographical Information

The following table shows revenue based on the geographical location of customers and non-current assets based on the country of domicile of the entity holding the asset:

	2013 Revenue £'000	2013 Non-current assets £'000	2012 Revenue £'000	2012 Non-current assets £'000
UK	**51,259**	**17,651**	20,352	24,164
Germany	**36,376**	**2,399**	7,572	2,304
Rest of Europe	**71,976**	**176,674**	64,786	178,350
USA	**19,428**	**38,946**	25,857	37,774
Rest of World	**10,137**	**—**	5,763	—
	189,176	**235,670**	124,330	242,592

3. Finance Income

	2013 £'000	2012 £'000
Finance income arising from:		
— Cash and cash equivalents	**2**	5
— Loans and receivables	**71**	65
— Return on employee benefit scheme assets	**123**	10
	196	80

4. Finance Expense

Underlying	2013 £'000	2012 £'000
Finance expense arising from:		
— Financial liabilities at amortised cost	**5,150**	2,873
— Interest cost in relation to employee benefit obligations	**124**	12
— Foreign exchange losses	**483**	920
Underlying finance expense	**5,757**	3,805

Non-underlying	2013 £'000	2012 £'000
Loss on extinguishment of debt	**—**	158
Unwinding of discounts on deferred and contingent consideration	**297**	277
Non-underlying finance expense	**297**	435
Total finance expense	**6,054**	4,240

5. Non-underlying Items

Non-underlying items comprise:

	2013 £'000	2012 £'000
Amortisation of intangible assets acquired as a result of acquisitions	**18,195**	10,833
Rationalisation costs	**2,577**	2,125
Expenses of the acquisition of *Eurovet* Animal Health B.V.	**—**	2,315
	20,772	15,273

Rationalisation costs in 2012 and 2013 relate to the integration of *Eurovet* Animal Health B.V. This consists primarily of the costs incurred in relation to the rationalisation of the four duplicated sales offices and associated sales teams.

Notes to the Consolidated Financial Statements continued

6. Profit Before Taxation

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

	2013 £'000	2012 £'000
Cost of inventories recognised as an expense	**72,946**	38,493
Impairment of inventories included in above figure	**1,191**	190
Depreciation of property, plant and equipment		
— owned assets	**2,265**	1,108
— under finance leases	**110**	88
Amortisation of intangible assets	**19,539**	12,450
Loss on disposal of intangible assets	**—**	47
Loss/(profit) on disposal of property, plant and equipment	**472**	(47)
(Release of impairment)/impairment of receivables	**(7)**	86
Operating lease rentals payable	**2,341**	1,983
Research and development expenditure as incurred	**7,961**	5,735
Auditor's remuneration	**676**	1,038
Analysis of total fees paid to the Auditor:		
Audit of these financial statements	**50**	50
Audit of financial statements of subsidiaries pursuant to legislation	**217**	190
Other services pursuant to legislation	**30**	29
Other tax advisory services	**89**	103
Other services relating to transactions	**290**	666
	676	1,038
Discontinued operations		
Audit of financial statements of subsidiaries pursuant to legislation	**36**	35
Total fees paid to Auditor	**712**	1,073

7. Employees

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

	2013 Number	2012 Number
Continuing operations		
Manufacturing	**289**	184
Distribution	**72**	56
Administration	**406**	285
	767	525
Discontinued operations		
Manufacturing	**60**	53
Distribution	**336**	338
Administration	**124**	126
	520	517
Total	**1,287**	1,042

7. Employees continued

The costs incurred in respect of these employees were:

	2013 £'000	2012 £'000
Continuing operations		
Wages and salaries	**32,152**	21,311
Social security costs	**4,279**	2,643
Other pension costs	**2,389**	1,516
Share-based payments charge (see note 24)	**1,014**	977
	39,834	26,447
Discontinued operations		
Wages and salaries	**10,004**	9,486
Social security costs	**871**	840
Other pension costs	**243**	241
	11,118	10,567
Total	**50,952**	37,014

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

	2013 £'000	2012 £'000
Wages and salaries (including benefits in kind)	**3,284**	2,766
Social security costs	**391**	354
Other pension costs	**278**	208
Share-based payments charge	**598**	757
Non-Executive Directors' fees	**211**	204
	4,762	4,289

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 67 to 83.

The Group operates a stakeholder personal pension scheme for certain employees and contributed between 4% and 14% of pensionable salaries. The Group also participates in state-run pension arrangements for certain employees in Dechra Veterinary Products SAS and Dechra Veterinary Products BV and operates defined benefit schemes in some countries. Total pension contributions amounted to £2,632,000 (2012: £1,757,000).

Notes to the Consolidated Financial Statements continued

8. Income Tax Expense

		2013 £'000	2012 £'000
Current tax	— UK corporation tax	**675**	2,148
	— overseas tax at prevailing local rates	**5,871**	2,937
	— adjustment in respect of prior years	**(800)**	126
Total current tax expense		**5,746**	5,211
Deferred tax	— origination and reversal of temporary differences	**(4,502)**	(3,590)
	— adjustment in respect of prior years	**384**	586
Total deferred tax expense		**(4,118)**	(3,004)
Total income tax expense in the income statement - continuing operations		**1,628**	2,207
Tax on discontinued operations		**2,539**	2,864
Total income tax expense in the income statement		**4,167**	5,071

The tax on the Group's profit before tax differs from the standard rate of UK corporation tax of 23.75% (2012: 25.5%). The differences are explained below:

	2013 £'000	2012 £'000
Profit before taxation	**12,478**	6,112
Tax at 23.75% (2012: 25.5%)	**2,964**	1,558
Effect of:		
— disallowable expenses	**286**	325
— research and development tax credits	**(39)**	(181)
— differences on overseas tax rates	**553**	(175)
— adjustments in respect of prior years	**(415)**	712
— non-taxable foreign exchange (gains)/losses	**(137)**	304
— change in tax rates	**(1,584)**	(336)
Total income tax expense — continuing operations	**1,628**	2,207
Tax on discontinued operations	**2,539**	2,864
Total income tax expense in the income statement	**4,167**	5,071

Tax Recognised Directly in Equity

	2013 £'000	2012 £'000
Deferred tax on effective portion of changes in fair value of cash flow hedges	**(86)**	(2)
Tax recognised in statement of comprehensive income	**(86)**	(2)
Corporation tax on equity settled transactions	**152**	143
Deferred tax on equity settled transactions	**70**	(77)
Total tax recognised in equity	**136**	64

The Budget on 20 March 2013 announced that the UK corporation tax rate will reduce to 20% by 2015. A reduction in the rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012, and further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 17 July 2013.

This will reduce the Group's future current tax charge accordingly and further reduce the deferred tax liability at 30 June 2013 (which has been calculated based on the rate of 23% substantively enacted at 30 June 2013) by £3.4 million.

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

9. Dividends

	2013 £'000	2012 £'000
Final dividend paid in respect of prior year but not recognised as a liability in that year: 8.50p* per share (2012: 7.72p*)	**7,390**	5,584
Interim dividend paid: 4.34p per share (2012: 3.77p*)	**3,780**	2,741
Total dividend 12.84p per share (2012: 11.49p*) recognised as distributions to equity holders in the period	**11,170**	8,325
Proposed final dividend for the year ended 30 June 2013: 9.66p per share (2012: 8.50p*)	**8,419**	7,384
Total dividend paid and proposed for the year ended 30 June 2013: 14.00p per share (2012: 12.27p*)	**12,199**	10,125

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

In accordance with IAS 10 'Events After the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2013 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 2014. The final dividend for the year ended 30 June 2012 is shown as a deduction from equity in the year ended 30 June 2013.

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.

	2013 Pence	2012 Pence
Basic earnings per share		
— Underlying*	**38.98**	32.37†
— continuing operations	**29.27**	21.35
— discontinued operations	**9.71**	11.02
— Basic	**20.59**	15.65†
— continuing operations	**12.47**	5.20
— discontinued operations	**8.12**	10.45
Diluted earnings per share		
— Underlying*	**38.71**	32.27†
— continuing operations	**29.07**	21.28
— discontinued operations	**9.64**	10.99
— Diluted	**20.45**	15.60†
— continuing operations	**12.39**	5.18
— discontinued operations	**8.06**	10.42

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

	£'000	£'000
Earnings for underlying basic and underlying diluted earnings per share	**33,913**	24,302
— continuing operations	**25,464**	16,029
— discontinued operations	**8,449**	8,273
Earnings for basic and diluted earnings per share	**17,913**	11,749
— continuing operations	**10,850**	3,905
— discontinued operations	**7,063**	7,844

	No.	No.
Weighted average number of ordinary shares for basic earnings per share	**87,011,352**	75,082,169
Impact of share options	**587,258**	224,690
Weighted average number of ordinary shares for diluted earnings per share	**87,598,610**	75,306,859

* Underlying measures exclude non-underlying items as defined on the consolidated income statement.
† Restated to reflect the impact of the bonus element of the Rights Issue.

Notes to the Consolidated Financial Statements continued

11. Intangible Assets

	Goodwill £'000	Software £'000	Development costs £'000	Patent rights £'000	Marketing authorisations £'000	Acquired intangibles £'000	Total £'000
Cost							
At 1 July 2011	24,249	3,548	7,102	3,680	853	115,002	154,434
Additions	—	1,186	447	—	—	5,114	6,747
Acquisitions through business combinations	36,348	74	—	—	—	78,629	115,051
Disposals	—	—	(61)	—	—	—	(61)
Foreign exchange adjustments	(2,676)	(152)	(48)	—	—	(5,339)	(8,215)
At 30 June 2012 and 1 July 2012	57,921	4,656	7,440	3,680	853	193,406	267,956
Additions	—	728	1,584	—	—	3,143	5,455
Disposals	—	(234)	—	—	—	—	(234)
Transferred to held for sale	(2,621)	(1,836)	—	—	—	(377)	(4,834)
Foreign exchange adjustments	3,055	98	47	—	—	8,658	11,858
At 30 June 2013	**58,355**	**3,412**	**9,071**	**3,680**	**853**	**204,830**	**280,201**
Amortisation							
At 1 July 2011	—	1,070	2,115	798	—	25,353	29,336
Charge for the year	—	551	1,005	335	—	10,871	12,762
Disposals	—	—	(14)	—	—	—	(14)
At 30 June 2012 and 1 July 2012	—	1,621	3,106	1,133	—	36,224	42,084
Charge for the year	—	451	857	335	—	18,233	19,876
Disposals	—	(234)	—	—	—	—	(234)
Transferred to held for sale	—	(891)	—	—	—	(230)	(1,121)
At 30 June 2013	**—**	**947**	**3,963**	**1,468**	**—**	**54,227**	**60,605**
Net book value							
At 30 June 2013	**58,355**	**2,465**	**5,108**	**2,212**	**853**	**150,603**	**219,596**
At 30 June 2012 and 1 July 2012	57,921	3,035	4,334	2,547	853	157,182	225,872
At 30 June 2011	24,249	2,478	4,987	2,882	853	89,649	125,098

	2013 £'000	2012 £'000
Contracted capital commitments	**6**	616
Software assets in the course of construction included above	**2,279**	638

Included in contracted capital commitments is £6,000 relating to assets held for sale.

Goodwill is allocated across cash-generating units that are expected to benefit from that business combination. Key assumptions made in this respect are given in note 13.

11. Intangible Assets continued

In accordance with the disclosure requirements of IAS 38 'Intangible Assets' the components of acquired intangibles are summarised below:

	Acquired development costs £'000	Product rights £'000	Customer relationships £'000	Total £'000
Cost				
At 1 July 2011	—	114,625	377	115,002
Additions	—	5,114	—	5,114
Acquisitions through business combinations	24,080	54,549	—	78,629
Foreign exchange adjustments	(1,635)	(3,704)	—	(5,339)
At 30 June 2012 and 1 July 2012	22,445	170,584	377	193,406
Additions	—	3,143	—	3,143
Transfer to assets held for sale	—	—	(377)	(377)
Foreign exchange adjustments	2,475	6,183	—	8,658
At 30 June 2013	**24,920**	**179,910**	**—**	**204,830**
Amortisation				
At 1 July 2011	—	25,199	154	25,353
Charge for the year	—	10,833	38	10,871
At 30 June 2012 and 1 July 2012	—	36,032	192	36,224
Charge for the year	2,243	15,952	38	18,233
Transfer to assets held for sale	—	—	(230)	(230)
At 30 June 2013	**2,243**	**51,984**	**—**	**54,227**
Net book value				
At 30 June 2013	**22,677**	**127,926**	**—**	**150,603**
At 30 June 2012 and 1 July 2012	22,445	134,552	185	157,182
At 30 June 2011	—	89,426	223	89,649

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

The principal assets within acquired intangibles are the development costs and product rights recognised on the acquisitions of Dechra Veterinary Products Holding A/S, *DermaPet* Inc., *Genitrix* Limited and *Eurovet* Animal Health B.V. The carrying value of these assets at 30 June 2013 was £141.6 million with a remaining amortisation period of 4½ years, 12½ years, 7½ years and 9 years respectively. The other significant assets within acquired intangibles are the product rights recognised on the acquisition of Pharmaderm Animal Health and *HY-50*. The carrying value at 30 June 2013 was £1.5 million and £4.4 million with a remaining amortisation period of 10 years and 8½ years respectively.

During the year the Company has completed a licensing, supply and distribution agreement for a branded veterinary generic pharmaceutical product from a US pharmaceutical development company. Under the terms of the agreement Dechra has paid US$1.5 million upon signing and will pay a further US$1.5 million on approval. There is a potential further contingent payment of US$2.0 million based on achieving US$20.0 million cumulative sales.

The principal asset within patent rights comprises payments to acquire the right to develop and market Trilostane, the active ingredient of *Vetoryl* Capsules, for animal health applications in the USA and Canada. The carrying value at 30 June 2013 was £1.2 million with a remaining amortisation period of 5½ years. The rights to *Equidone*, which was launched in the US during 2011, has a carrying value of £0.9 million with an amortisation period of 8 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.

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
Cost					
At 1 July 2011	2,447	3,382	205	11,427	17,461
Additions	34	77	—	1,534	1,645
Acquisitions through business combinations	6,749	—	14	2,691	9,454
Disposals	—	—	(2)	(218)	(220)
Foreign exchange adjustments	(353)	—	—	(158)	(511)
At 30 June 2012 and 1 July 2012	8,877	3,459	217	15,276	27,829
Additions	1,442	45	—	2,178	3,665
Disposals	(168)	—	(82)	(2,503)	(2,753)
Transfer to assets held for sale	—	(349)	(135)	(4,706)	(5,190)
Foreign exchange adjustments	432	—	—	179	611
At 30 June 2013	**10,583**	**3,155**	**—**	**10,424**	**24,162**
Depreciation					
At 1 July 2011	471	1,456	201	7,612	9,740
Charge for the year	176	219	2	1,187	1,584
Disposals	—	—	—	(215)	(215)
At 30 June 2012 and 1 July 2012	647	1,675	203	8,584	11,109
Charge for the year	772	224	—	1,799	2,795
Disposals	(78)	—	(70)	(2,134)	(2,282)
Transfer to assets held for sale	—	(198)	(133)	(3,203)	(3,534)
At 30 June 2013	**1,341**	**1,701**	**—**	**5,046**	**8,088**
Net book value					
At 30 June 2013	**9,242**	**1,454**	**—**	**5,378**	**16,074**
At 30 June 2012 and 1 July 2012	8,230	1,784	14	6,692	16,720
At 30 June 2011	1,976	1,926	4	3,815	7,721
Net book value of assets held under finance leases					
At 30 June 2013	**—**	**—**	**—**	**163**	**163**
At 30 June 2012 and 1 July 2012	—	32	—	371	403
At 30 June 2011	—	40	—	568	608

	2013 £'000	2012 £'000
Contracted capital commitments	**68**	366
Assets in the course of construction included above	**1,290**	**—**

Included in contracted capital commitments is £55,000 relating to assets held for sale.

13. Impairment Reviews

Goodwill, indefinite life assets and intangible assets not yet available for use are tested for impairment annually, or more frequently if there are indications that amounts might be impaired. The impairment test involves determining the recoverable amount of the relevant asset or cash generating unit, which corresponds to the higher of the fair value less costs to sell or its value in use.

Value in use calculations are performed by forecasting the future cash flows attributable to the asset being tested (or the relevant cash generating unit in respect of goodwill). The forecast cash flows are discounted at an appropriate rate as described below.

Projected future cash flows have been derived from the business plan and extrapolated by applying a growth rate of 3% (2012: 5%) per annum up to year five and thereafter a growth rate of 0% (2012: 0%) per annum into perpetuity which is considered to be conservative compared to the long term average growth rate for the industry.

The business plan has been formulated based on various factors, including market growth forecasts, the 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 2013 for the following assets:

	2013			
Cash generating unit	**Goodwill carrying value £'000**	**Indefinite life assets carrying value £'000**	**Total value £'000**	**Pre-tax discount rate %**
Dechra Veterinary Products EU	**55,794**	**822**	**56,616**	**8.8**
Dermapet	**330**	**—**	**330**	**10.4**
Dales	**2,231**	**—**	**2,231**	**8.7**

	2012			
	Goodwill carrying value £'000	Indefinite life assets carrying value £'000	Total value £'000	Pre-tax discount rate %
Dechra Veterinary Products EU	52,749	822	53,571	8.9
Dermapet	320	—	320	9.5
Laboratories	2,621	—	2,621	9.9
Dales	2,231	—	2,231	8.7

In all cases there was significant headroom between the carrying value and the value in use and no impairment provision is therefore required. An increase in the pre-tax discount rate of 1% and a reduction in the growth rate to nil would still not result in the requirement for an impairment provision.

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	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000
Intangible assets	**—**	—	**(27,548)**	(29,984)	**(27,548)**	(29,984)
Property, plant and equipment	**—**	—	**(1,896)**	(1,691)	**(1,896)**	(1,691)
Inventories	**1,067**	1,178	**—**	—	**1,067**	1,178
Payables	**212**	435	**—**	(168)	**212**	267
Share-based payments	**964**	813	**—**	—	**964**	813
Employee benefit obligations	**17**	74	**—**	—	**17**	74
	2,260	2,500	**(29,444)**	(31,843)	**(27,184)**	(29,343)

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 (2012: £nil). The estimated unprovided deferred tax liability in relation to these temporary differences is £nil (2012: £nil). Deferred tax assets in relation to losses amounting to £75,000 (2012: £368,000) have not been recognised due to uncertainty over their recoverability.

(c) Movements During the Year

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

	Balance at 1 July 2012 £'000	Recognised in income £'000	Acquisitions £'000	Recognised in equity £'000	Foreign exchange adjustments £'000	**Balance at 30 June 2013 £'000**
Intangible assets	(29,984)	4,240	—	—	(1,804)	**(27,548)**
Property, plant and equipment	(1,691)	(117)	—	—	(88)	**(1,896)**
Inventories	1,178	(112)	—	—	1	**1,067**
Payables	267	19	—	(86)	12	**212**
Employee benefit obligations	74	(58)	—	—	1	**17**
Share-based payments	813	81	—	70	—	**964**
	(29,343)	4,053	—	(16)	(1,878)	**(27,184)**

Amounts recognised in income relating to continuing operations total £4,118,000 (2012: £3,004,000).

15. Inventories

	2013 £'000	2012 £'000
Raw materials and consumables	**6,698**	7,732
Work in progress	**2,224**	1,661
Finished goods and goods for resale	**20,277**	47,888
	29,199	57,281

16. Trade and Other Receivables

	2013 £'000	2012 £'000
Trade receivables	**25,296**	69,596
Other receivables	**922**	965
Prepayments and accrued income	**1,464**	1,552
	27,682	72,113

17. Cash and Cash Equivalents

	2013 £'000	2012 £'000
Cash at bank and in hand	**32,791**	32,435

18. Trade and Other Payables

	2013 £'000	2012 £'000
Trade payables	**11,859**	63,559
Other payables	**6,973**	6,745
Derivative financial instruments	**15**	387
Other taxation and social security	**2,729**	3,402
Accruals and deferred income	**6,907**	5,770
	28,483	79,863

19. Current Tax Liabilities

	2013 £'000	2012 £'000
Corporation tax payable	**10,368**	8,155

Notes to the Consolidated Financial Statements continued

20. Borrowings

	2013 £'000	2012 £'000
Current liabilities:		
Bank loans	**10,000**	5,000
Finance lease obligations	**338**	695
Arrangement fees netted off	**(588)**	(589)
	9,750	5,106
Non-current liabilities:		
Bank loans	**105,073**	115,757
Finance lease obligations	**142**	246
Arrangement fees netted off	**(1,375)**	(1,957)
	103,840	114,046
Total borrowings	**113,590**	119,152

On 4 April 2012, the Group refinanced its existing bank facility, which gave rise to a loss on extinguishment of debt of £158,000. The Group's revised borrowing facilities comprise a term loan of £55 million payable over 4½ years, a £65 million revolving credit facility committed until 31 October 2016, an overdraft facility of £10 million renewable on 30 September 2013 and various finance lease obligations.

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

	2013 £'000	2012 £'000
Bank overdraft facility	**10,000**	10,000

The term loan, revolving credit and overdraft facilities are secured by a fixed and floating charge on the assets of the Group. Interest is charged at 2.50% over LIBOR in respect of the term loan and revolving credit facility and 2.50% over base rate in respect of the overdraft facility. No covenants have been breached during the year ended 30 June 2013.

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

	2013 £'000	2012 £'000
Payable:		
Within one year	**10,000**	5,000
Between one and two years	**10,000**	10,000
Between two and five years	**95,073**	105,757
	115,073	120,757

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	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Within one year	**361**	730	**338**	695
Between one and two years	**137**	217	**134**	210
Between two and five years	**8**	36	**8**	36
Total minimum lease payments	**506**	983	**480**	941
Future finance charges	**(26)**	(42)	**—**	—
Present value of lease obligations	**480**	941	**480**	941

Further information on the interest profile of borrowings is shown in note 22.

21. Employee Benefit Obligations

The Group sponsors defined benefit arrangements in certain countries, the most material being a defined benefit pension plan in the Netherlands. This is a funded career average pay arrangement, where pensionable salary is subject to a cap. The arrangement is financed through an insurance contract.

The other defined benefit pension arrangements operated by the Company are unfunded: Jubilee awards of £98,000 (2012: £61,000) for employees in the Netherlands and Germany and early retirement plan provisions in Germany of £nil (2012: £2,000) are recognised within other payables in the statement of financial position as at 30 June 2013.

The pension cost relating to the defined benefit pension arrangement in the Netherlands is assessed in accordance with the advice of an independent qualified actuary using the projected unit method.

The major actuarial assumptions used by the actuary were:

	2013	2012
Discount rate	**3.90%**	4.60%
Expected return on assets	**3.90%**	4.60%
Inflation assumption	**1.90%**	1.90%
Salary growth	**2.40%**	2.40%
Rate of increase in accrued pensions of active members	**1.30%**	1.90%
Rate of increase in pensions in payment	**0.00%**	0.00%
Rate of increase in pensions in deferment	**0.00%**	0.00%

Notes to the Consolidated Financial Statements continued

21. Employee Benefit Obligations continued

In valuing the liabilities of the pension scheme at 30 June 2013 and 30 June 2012, mortality assumptions have been made as indicated below.

The mortality assumption follows the AG Prognosetafel 2012-2062 mortality tables with an experience adjustment in line with the ES-P2 tables as published by the Dutch Alliance of Insurers.

The assumptions used by the Group are the best estimates chosen by the Directors from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

	2013 £'000	2012 £'000
Present value of funded defined benefit obligations	**(4,722)**	(2,801)
Fair value of scheme assets	**3,726**	2,438
Net pension scheme deficit	**(996)**	(363)

Movements in Present Value of Defined Benefit Obligations

	2013 £'000	2012 £'000
Defined benefit obligation at beginning of the period	**2,801**	—
Defined benefit obligation at acquisition	**—**	2,745
Service cost	**446**	37
Interest cost	**124**	12
Employee contributions	**107**	7
Actuarial loss	**1,076**	—
Foreign exchange difference on translation	**168**	—
Defined benefit obligations at end of the period	**4,722**	2,801

Movements in Fair Value of Scheme Assets

	2013 £'000	2012 £'000
Fair value of scheme assets at beginning of the period	**2,438**	—
Fair value of scheme assets at acquisition	**—**	2,404
Expected return on scheme assets	**123**	10
Additional charges	**(289)**	(23)
Employer contributions	**897**	40
Employee contributions	**107**	7
Actuarial gain	**304**	—
Foreign exchange difference on translation	**146**	—
Fair value of scheme assets at end of the period	**3,726**	2,438

Analysis of the Amount Charged to the Income Statement

	2013 £'000	2012 £'000
Service cost	**446**	37
Expected return on assets	**(123)**	(10)
Interest on liabilities	**124**	12
Additional charges	**289**	23
Net pension expense	**736**	62

21. Employee Benefit Obligations continued

Analysis of the Amount Charged to the Other Statement of Consolidated Income

	2013 £'000	2012 £'000
Amounts charged in previous periods	—	—
Actuarial loss on defined benefit pension scheme	772	—
Net pension expense	772	—

Scheme Assets

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

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

	2013 £'000	2012 £'000
Discount rate used to value assets	3.90%	4.60%
Total fair value of assets	3,726	2,438
Actual return on scheme assets	123	10

The long term rate of return on pension plan assets is determined by aggregating the expected return for each asset class over the strategic asset allocation as at the year end. This rate of return is then adjusted for any expected profit sharing based on market related returns on notional loans.

The scheme's assets do not include any of the Group's own financial instruments or any property occupied by or other assets used by the Group.

The employer has a contract with the insurance company Nationale-Nederlanden to cover the committed pension benefits.

The employer contributions expected to be paid into the scheme for the next financial period amount to £571,000 (2012: £480,000).

History of Amounts in the Current Period

	2013 £'000	2012 £'000
Present value of funded defined benefit obligations	(4,722)	(2,801)
Fair value of scheme assets	3,726	2,438
Deficit in the scheme	(996)	(363)

Notes to the Consolidated Financial Statements continued

22. Financial Instruments and Related Disclosures

The Group's financial instruments comprise cash deposits, bank loans and overdrafts, finance lease obligations, derivatives used for hedging purposes and trade receivables and payables.

Treasury Policy

The Group reports in Sterling and pays dividends out of Sterling profits. The role of the Group's treasury activities is to manage and monitor the Group's external and internal funding requirements and financial risks in support of the Group's corporate activities.

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

The Group uses a variety of financial instruments, including derivatives, to finance its operations and to manage market risks from these operations. Derivatives, principally comprising forward foreign currency contracts, foreign currency options and interest rate swaps, are used to hedge against changes in foreign currencies and interest rates.

The Group does not hold or issue derivative financial instruments for speculative purposes and the Group's treasury policy specifically prohibits such activity. All transactions in financial instruments are undertaken to manage the risks arising from underlying business activities, not for speculation.

Capital Management

The capital structure of the Group consists of net borrowings and Shareholders' equity. At 30 June 2013, net borrowings were £80.8 million, whilst Shareholders' equity was £174.6 million.

The Group maintains a strong capital base so as to maintain investors', creditors' and market confidence and to sustain future development of the business. The Group 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.

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 2013 and 2012. 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.

22. Financial Instruments and Related Disclosures continued

Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- liquidity risk
- market risk
- credit risk

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk.

Liquidity Risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet liabilities as they fall due. Cash forecasts identifying the liquidity requirements of the Group are produced quarterly. These are reviewed to ensure sufficient financial headroom exists for at least a 12 month period.

The Group manages its funding requirements through the following lines of credit:

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

The Group's undrawn borrowing facilities at 30 June 2013 are detailed in note 20.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates or interest rates, will affect the Group's income or the value of its holding of financial instruments.

Interest Rate Risk Management

The majority of the Group's borrowings bear interest at floating rates linked to base rate or LIBOR and are consequently exposed to cash flow interest rate risk.

The Group has hedged interest rate risk on a proportion of its term loan and revolving credit facility by means of an interest rate swap arrangement whereby the Group's exposure to fluctuations in LIBOR is fixed at a rate of 0.83% on the term loan and 0.88% on the revolving credit facility. The amount of the term loan and revolving credit outstanding at 30 June 2013 was £115.1 million (2012: £120.8 million). The hedge is in place until 31 October 2016 and the amount hedged matches the repayment profile of the loan.

Foreign Exchange Risk Management

Foreign currency transaction exposure arising on normal trade flows is not hedged. The Group matches receipts and payments in the relevant foreign currencies as far as possible. To this end, bank accounts are maintained for all the major currencies in which the Group trades. Translational exposure in converting the income statements of foreign subsidiaries into the Group's presentational currency of Sterling is not hedged.

The Group hedges selectively expected currency cash flows outside normal trading activities, principally using foreign currency options.

Notes to the Consolidated Financial Statements continued

22. Financial Instruments and Related Disclosures continued

Credit Risk

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

The Group considers its maximum credit risk to be £59,009,000 (2012: £102,996,000) 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 Pharmaceuticals segments are European and US wholesalers. The failure of a large wholesaler could have a material adverse impact on the Group's financial results.

The largest customer of the Group (excluding assets relating to discontinued operations) accounted for approximately 2.0% of gross trade receivables at 30 June 2013 (2012: 1.5%). No customer accounted for more than 10% of total Group revenues.

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

Fair Value of Financial Assets and Liabilities

The following table presents the carrying amounts and the fair values of the Group's financial assets and liabilities at 30 June 2013 and 30 June 2012.

The following assumptions were used to estimate the fair values:

- Cash and cash equivalents — approximates to the carrying amount.
- Forward exchange contracts — based on market price and exchange rates at the balance sheet date.
- Interest rate swaps — based upon the amount that the Group would receive or pay to terminate the instrument at the balance sheet date, being the market price of the instrument.
- Receivables and payables — approximates to the carrying amount.
- Bank loans and overdrafts — based upon discounted cash flows using discount rates based upon facility rates renegotiated after the 30 June 2012 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.

22. Financial Instruments and Related Disclosures continued

Analysis of Financial Instruments

The financial instruments of the Group are analysed as follows:

	2013 Carrying value £'000	2013 Fair value £'000	2012 Carrying value £'000	2012 Fair value £'000
Financial assets				
Cash and cash equivalents	**32,791**	**32,791**	32,435	32,435
	32,791	**32,791**	32,435	32,435
Loans and receivables				
— trade receivables	**25,296**	**25,296**	69,596	69,596
— other receivables	**922**	**922**	965	965
	26,218	**26,218**	70,561	70,561
Total financial assets	**59,009**	**59,009**	102,996	102,996
Financial liabilities				
Bank loans and overdrafts	**(115,073)**	**(115,073)**	(120,757)	(120,757)
Held for trading financial liabilities				
— derivatives designated as hedges	**(15)**	**(15)**	(387)	(387)
Finance lease liabilities	**(480)**	**(480)**	(941)	(938)
Trade payables	**(11,859)**	**(11,859)**	(63,559)	(63,559)
Other payables	**(6,973)**	**(6,973)**	(13,222)	(13,222)
Deferred and contingent consideration	**(5,928)**	**(5,928)**	(13,863)	(13,863)
Total financial liabilities	**(140,328)**	**(140,328)**	(212,729)	(212,726)
Net financial liabilities	**(81,319)**	**(81,319)**	(109,733)	(109,730)

Fair Value Hierarchy

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

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

30 June 2013	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Derivative financial liabilities	**—**	**(15)**	**—**	**(15)**
Deferred and contingent consideration	**—**	**—**	**(5,928)**	**(5,928)**
Total	**—**	**(15)**	**(5,928)**	**(5,943)**

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

At 30 June 2013, the deferred consideration balance is made up of £3.8 million in relation to the *Dermapet* acquisition and £2.1 million for a US generic pharmaceutical product. Movements in deferred and contingent consideration consists of a £0.3 million payment made under the terms of the *Genitrix* acquisition, a £10.0 million payment offset by a £0.3 million unwinding of discount and £0.1 million decrease due to foreign exchange differences in relation to the *DermaPet* acquisition, and a £2.1 million addition for a US generic pharmaceutical.

Notes to the Consolidated Financial Statements continued

22. Financial Instruments and Related Disclosures continued

Credit Risk — Overdue Financial Assets

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

	2013 £'000	2012 £'000
Overdue by:		
Up to one month	**4,052**	5,810
Between one and two months	**415**	983
Between two and three months	**11**	644
Over three months	**—**	2,649
	4,478	10,086

The movement in the impairment provision was as follows:

	2013 £'000	2012 £'000
At start of period	**2,877**	2,911
Impairment provision (released)/recognised	**(7)**	231
Transferred to held for sale	**(2,667)**	—
Impairment provision utilised	**(55)**	(265)
At end of period	**148**	2,877

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 2013 and 30 June 2012. Where interest is at floating rates, the future interest payments have been estimated using current interest rates:

At 30 June 2013	Deferred and contingent consideration £'000	Bank loans and overdrafts £'000	Finance leases £'000	Trade and other payables £'000	Total £'000
Carrying value	**(5,928)**	**(113,110)**	**(480)**	**(18,832)**	**(138,350)**
Arrangement fees netted off	**—**	**(1,963)**	**—**	**—**	**(1,963)**
Future interest	**(318)**	**(3,761)**	**(26)**	**—**	**(4,105)**
Total committed cash flow	**(6,246)**	**(118,834)**	**(506)**	**(18,832)**	**(144,418)**
Payable:					
Within 6 months	**—**	**(6,203)**	**(354)**	**(18,832)**	**(25,389)**
Between 6 months and 1 year	**(986)**	**(5,639)**	**(7)**	**—**	**(6,632)**
Between 1 and 2 years	**(3,945)**	**(11,053)**	**(137)**	**—**	**(15,135)**
Between 2 and 3 years	**(1,315)**	**(13,233)**	**(8)**	**—**	**(14,556)**
Between 3 and 4 years	**—**	**(82,706)**	**—**	**—**	**(82,706)**
Between 4 and 5 years	**—**	**—**	**—**	**—**	**—**
Over 5 years	**—**	**—**	**—**	**—**	**—**
	(6,246)	**(118,834)**	**(506)**	**(18,832)**	**(144,418)**

22. Financial Instruments and Related Disclosures continued

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

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

	2013 £'000	2012 £'000
Due:		
Within 6 months	**83**	81
Between 6 months and 1 year	**(12)**	94
Between 1 and 2 years	**(25)**	212
Between 2 and 5 years	**(31)**	—
	15	387

The Group has a contractual obligation to pay £83,000 (2012: £81,000) under its interest rate swap arrangement covering the period from 30 June to 30 September 2013.

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

Notes to the Consolidated Financial Statements continued

22. Financial Instruments and Related Disclosures continued

Foreign Currency Exposure

The Sterling equivalents of financial assets and liabilities denominated in foreign currencies at 30 June 2013 and 30 June 2012 were:

At 30 June 2013	Danish Krone £'000	Euro £'000	US Dollar £'000	Other £'000
Financial assets				
Trade receivables	**52**	**6,063**	**4,055**	**5,844**
Other receivables	**3**	**39**	**23**	**211**
Cash balances	**2,903**	**5,338**	**3,499**	**2,081**
	2,958	**11,440**	**7,577**	**8,136**
Financial liabilities				
Bank loans and overdrafts	**—**	**(11,990)**	**(29,567)**	**—**
Trade payables	**(34)**	**(1,181)**	**(1,389)**	**(124)**
	(34)	**(13,171)**	**(30,956)**	**(124)**
Net balance sheet exposure	**2,924**	**(1,731)**	**(23,379)**	**8,012**

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

22. Financial Instruments and Related Disclosures continued

Sensitivity Analysis

Interest Rate Risk

A 2.0% increase in interest rates compared to those ruling at 30 June 2013 would reduce Group profit before taxation and equity by £621,000 (2012: £168,000).

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	50	(15)
US Dollar	(111)	(359)
Euro	(3,195)	(12,286)

Hedges

Cash Flow Hedges

The Group has entered into an interest rate swap on the term loan of £55 million and the revolving credit facility of £65 million. The Group has designated this a cash flow hedge. The risk being hedged is the variability of cash flows arising from movements in interest rates. No ineffectiveness arose on the hedge.

The hedge is in place until 31 October 2016. The amounts recognised in equity are recycled to the 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 2013 was a liability of £nil including an income tax credit of £15,000 (2012: £286,000 including an income tax credit of £101,000).

23. Share Capital

	Ordinary shares of 1p each			
	2013		2012	
	£'000	**No.**	£'000	No.
Allotted, called up and fully paid at start of year	**869**	**86,870,176**	664	66,449,659
Rights issue	**—**	**—**	201	20,040,653
New shares issued	**3**	**287,268**	4	379,864
Allotted, called up and fully paid at end of year	**872**	**87,157,444**	869	86,870,176

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital. At the 2009 Annual General Meeting the Shareholders approved a resolution whereby all provisions relating to the Company's authorised share capital were removed from the Company's constitutional documents.

During the year 287,268 new ordinary shares of 1p (2012: 379,864 new ordinary shares of 1p) were issued following the exercise of options under the Long Term Incentive Plan, and the Approved, Unapproved and SAYE Share Options Schemes. The consideration received was £845,674 (2012: £452,782). The holders of ordinary shares are entitled to receive dividends as declared or approved at General Meetings from time to time and are entitled to one vote per share at such meetings of the Company.

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

Notes to the Consolidated Financial Statements continued

24. Share-based Payments

During the year, the Company operated the Unapproved Share Option Scheme, the Approved Share Option Scheme, the Long Term Incentive Plan and the Save As You Earn ("SAYE") Share Option Scheme as described below:

Unapproved and Approved Share Option Schemes

Under these Schemes, options are granted to certain Executives and employees of the Group (excluding Executive Directors) to purchase shares in the Company at a price fixed at the average market value over the three days prior to the date of grant. For the options to vest, there must be an increase in earnings per share of at least 12% above the growth in the UK Retail Prices Index (RPI) over a three year period. Once vested, options must be exercised within ten years of the date of grant.

Long Term Incentive Plan

For awards granted before 5 March 2013: Vesting is dependent on an underpin condition based on the Company's adjusted diluted earnings per share performance. No awards will vest unless adjusted diluted earnings per share has grown by at least 3% per annum above the retail prices index over the three year measurement period. Provided this condition is met, then the number of shares that vest depends on the Company's TSR performance against the FTSE Small Cap Index over the three year measurement period. 100% of the shares vest if the Company achieves an upper quartile performance, 25% of the shares vest at median performance, and awards vest on a straight-line basis for performance in between. No shares vest if performance is below median.

For awards granted on and after 5 March 2013: Vesting is dependent on two performance targets which must be satisfied over a three year performance period commencing from the start of the financial year within which the award is granted. 50% of the award will vest dependent on the Company's TSR performance against an appropriate comparator group. 50% of the award will vest subject to a performance condition based on the annual earnings per share growth.

SAYE Option Scheme

This scheme is open to all UK employees. Participants save a fixed amount of up to £250 per month for either three or five years and are then able to use these savings to buy shares in the Company at a price fixed at a 20% discount to the market value at the start of the savings period. Prior to 16 October 2012 participants were able to save for a seven year period. The SAYE options must ordinarily be exercised within six months of the completion of the relevant savings period. The exercise of these options is not subject to any performance criteria.

24. Share-based Payments continued

Year ended 30 June 2013

	Exercise Period	Exercise price per share* Pence	At 1 July 2012 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2013 Number
Unapproved Share Option Scheme							
11 April 2003†	2006-2013	53.73	2,722	(2,722)	—	—	**—**
19 March 2007†	2010-2017	265.43	14,615	(7,495)	—	—	**7,120**
2 April 2008†	2011-2018	336.15	27,029	(9,828)	—	—	**17,201**
10 October 2008†	2011-2018	364.62	33,752	(13,610)	—	—	**20,142**
30 March 2009†	2012-2019	381.15	52,862	(18,507)	—	—	**34,355**
1 March 2010†	2013-2020	418.81	52,314	(16,302)	—	(6,340)	**29,672**
28 February 2011	2014-2021	461.97	60,361	—	—	(7,678)	**52,683**
10 September 2012	2015-2022	541.00	—	—	93,772	(3,000)	**90,772**
			243,655	(68,464)	93,772	(17,018)	**251,945**
Approved Share Option Scheme							
2 April 2004†	2007-2014	123.53	10,887	(10,887)	—	—	**—**
5 April 2005†	2008-2015	185.98	22,862	(14,153)	—	—	**8,709**
15 March 2006†	2009-2016	231.45	23,949	(9,798)	—	—	**14,151**
19 March 2007†	2010-2017	265.43	54,918	(24,073)	—	—	**30,845**
2 April 2008†	2011-2018	336.15	37,363	(14,029)	—	—	**23,334**
10 October 2008†	2011-2018	364.62	2,722	—	—	—	**2,722**
30 March 2009†	2012-2019	381.15	12,454	(6,532)	—	—	**5,922**
1 March 2010†	2013-2020	418.81	30,413	(5,470)	—	(3,457)	**21,486**
28 February 2011	2014-2021	461.97	21,273	—	—	(5,385)	**15,888**
10 September 2012	2015-2022	541.00	—	—	17,228	—	**17,228**
			216,841	(84,942)	17,228	(8,842)	**140,285**
Long Term Incentive Plan							
24 September 2009	2012-2013	—	302,421	—	—	(302,421)	**—**
22 December 2010	2013-2014	—	256,780	—	—	(49,441)	**207,339**
7 September 2011	2014-2015	—	304,060	—	—	(58,338)	**245,722**
5 March 2013	2016-2016	—	—	—	279,323	—	**279,323**
			863,261	—	279,323	(410,200)	**732,384**
SAYE Option Scheme							
12 October 2006	2009-2013	179.77	3,909	—	—	—	**3,909**
17 October 2007	2010-2014	257.16	76,022	(55,777)	—	(11,699)	**8,546**
13 October 2008	2011-2015	315.02	42,588	—	—	(6,166)	**36,422**
12 October 2009	2012-2016	304.92	114,713	(78,085)	—	(8,814)	**27,814**
13 December 2010	2013-2017	375.64	95,020	—	—	(2,729)	**92,291**
17 October 2011	2014-2018	365.54	100,126	—	—	(11,981)	**88,145**
16 October 2012	2015-2019	471.00	—	—	125,715	(10,656)	**115,059**
			432,378	(133,862)	125,715	(52,045)	**372,186**
Total			1,756,135	(287,268)	516,038	(488,105)	**1,496,800**
Weighted average exercise price*			172.47p	294.39p	231.11p	61.10p	**205.61p**

* Adjusted to reflect the bonus element of the Rights Issue — there has been no impact on the overall fair value of options in issue.
† Total share options exercisable at 30 June 2013 are 215,659.

Notes to the Consolidated Financial Statements continued

24. Share-based Payments continued

Year ended 30 June 2012

	Exercise Period	Exercise price per share Pence	At 1 July 2012 Number	Exercised Number	Granted Number	Adjusted for Rights Issue*	Lapsed Number	At 30 June 2012 Number
Unapproved Share Option Scheme								
22 April 2002†	2005-2012	140.98	1,500	(1,500)	—	—	—	**—**
11 April 2003†	2006-2013	53.73	2,500	—	—	222	—	**2,722**
19 March 2007†	2010-2017	265.43	17,586	(3,809)	—	1,449	(611)	**14,615**
2 April 2008†	2011-2018	336.15	35,883	(8,585)	—	2,731	(3,000)	**27,029**
10 October 2008†	2011-2018	364.62	33,500	(2,500)	—	2,752	—	**33,752**
30 March 2009†	2012-2019	381.15	54,921	(3,876)	—	4,617	(2,800)	**52,862**
1 March 2010	2013-2020	418.81	52,854	—	—	4,250	(4,790)	**52,314**
28 February 2011	2014-2021	461.97	60,688	—	—	4,904	(5,231)	**60,361**
			259,432	(20,270)	—	20,925	(16,432)	**243,655**
Approved Share Option Scheme								
2 April 2004†	2007-2014	123.53	10,000	—	—	887	—	**10,887**
3 December 2004†	2007-2014	165.32	1,667	(1,667)	—	—	—	**—**
5 April 2005†	2008-2015	185.98	23,000	(2,000)	—	1,862	—	**22,862**
15 March 2006†	2009-2016	231.45	36,000	(10,443)	—	2,392	(4,000)	**23,949**
19 March 2007†	2010-2017	265.43	58,901	(5,156)	—	4,562	(3,389)	**54,918**
2 April 2008†	2011-2018	336.15	53,117	(15,784)	—	3,030	(3,000)	**37,363**
10 October 2008†	2011-2018	364.62	2,500	—	—	222	—	**2,722**
30 March 2009†	2012-2019	381.15	23,079	(5,921)	—	1,496	(6,200)	**12,454**
1 March 2010	2013-2020	418.81	33,146	—	—	2,477	(5,210)	**30,413**
28 February 2011	2014-2021	461.97	23,312	—	—	1,730	(3,769)	**21,273**
			264,722	(40,971)	—	18,658	(25,568)	**216,841**
Long Term Incentive Plan								
19 November 2008	2011-2012	—	327,272	(232,717)	—	—	(94,555)	**—**
24 September 2009	2012-2013	—	277,758	—	—	24,663	—	**302,421**
22 December 2010	2013-2014	—	235,841	—	—	20,939	—	**256,780**
7 September 2011	2014-2015	—	—	—	279,263	24,797	—	**304,060**
			840,871	(232,717)	279,263	70,399	(94,555)	**863,261**
SAYE Option Scheme								
12 October 2006	2009-2013	179.77	27,681	(24,090)	—	318	—	**3,909**
17 October 2007	2010-2014	257.16	69,291	—	—	6,731	—	**76,022**
13 October 2008	2011-2015	315.02	105,141	(61,816)	—	3,563	(4,300)	**42,588**
12 October 2009	2012-2016	304.92	117,426	—	—	9,508	(12,221)	**114,713**
13 December 2010	2013-2017	375.64	105,400	—	—	7,716	(18,096)	**95,020**
17 October 2011	2014-2018	365.54	—	—	97,486	8,127	(5,487)	**100,126**
			424,939	(85,906)	97,486	35,963	(40,104)	**432,378**
Total			1,789,964	(379,864)	376,749	145,945	(176,659)	**1,756,135**
Weighted average exercise price*			175.24p	111.35p	94.59p	—	167.92p	**172.47p**

* Adjusted to reflect the bonus element of the Rights Issue — there has been no impact on the overall fair value of options in issue.
† Total share options exercisable at 30 June 2012 are 296,135.

The weighted average exercise price of options eligible to be exercised at 30 June 2013 was 341.8p (2012: 302.5p).

For options exercised during the year, the weighted average market price at the date of exercise was 629p (2012: 461p). The weighted average remaining contractual lives of options outstanding at the consolidated statement of financial position date was four years (2012: four years).

24. Share-based Payments continued

Outstanding options on all Long Term Incentive Plan, Approved and Unapproved plans prior to 30 June 2010 were exercisable at 30 June 2013.

No options issued under SAYE plans were exercisable at 30 June 2013.

The fair values for shares granted under the Unapproved, Approved and SAYE Option Schemes have been calculated using the Black-Scholes option pricing model. The fair values of shares awarded under the Long Term Incentive Plan have been calculated using a Monte Carlo simulation model which takes into account the market-based performance conditions attaching to those shares.

The assumptions used in calculating fair value are as follows:

Long Term Incentive Plan

Date of grant	05/03/13	07/09/11
Number of shares awarded	279,323	279,263
Share price at date of grant	699p	455.5p
Exercise price	Nil	Nil
Expected life	3 years	3 years
Risk-free rate	0.34%	0.85%
Volatility	28%	38%
Dividend yield	1.72%	2.66%
Fair value per share	590p	276p

Unapproved and Approved Share Option Schemes

Date of grant	10/09/12	28/02/11
Number of shares awarded	111,000	84,000
Share price at date of grant	558.5p	507.5p
Exercise price	541p	503p
Expected life	5 years	5 years
Risk-free rate	0.66%	2.65%
Volatility	34%	36%
Dividend yield	2.20%	2.07%
Fair value per share	141p	149p

Notes to the Consolidated Financial Statements continued

24. Share-based Payments continued

Save As You Earn Option Scheme

Date of grant	16/10/12	17/10/11
Number of shares awarded	125,715	97,486
Share price at date of grant	591p	478p
Exercise price	471p	398p
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
Risk-free rate		
— three year scheme	0.41%	0.98%
— five year scheme	0.84%	1.58%
— seven year scheme	—	2.11%
Volatility	34%	34%
Dividend yield	2.08%	2.53%
Fair value per share		
— three year scheme	171p	140p
— five year scheme	192p	147p
— seven year scheme	—	161p

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 2013 of £260,000 (2012: £73,000), of which £39,000 (2012: £18,000) related to vested options. The total charge to the Income Statement in respect of share-based payments was:

	2013 £'000	2012 £'000
Equity settled share-based transactions	**821**	1,001
Cash settled share-based transactions	**193**	(24)
	1,014	977

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

25. Analysis of Net Borrowings

	2013 £'000	2012 £'000
Bank loans	**(113,110)**	(118,211)
Finance leases and hire purchase contracts	**(480)**	(941)
Cash and cash equivalents	**32,791**	32,435
Net borrowings	**(80,799)**	(86,717)

26. Operating Leases

At the balance sheet date the Group had outstanding commitments for future minimum rentals payable under non-cancellable operating leases as follows:

	Land and buildings		Other assets		Total	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000
Within one year	**1,362**	1,301	**2,432**	2,279	**3,794**	3,580
Between one and five years	**2,775**	3,300	**2,357**	2,414	**5,132**	5,714
In five years or more	**2,787**	2,927	**49**	—	**2,836**	2,927
	6,924	7,528	**4,838**	4,693	**11,762**	12,221

The Group leases properties, plant, machinery and vehicles for operational purposes. Property leases vary in length up to a period of 25 years. Plant, machinery and vehicle leases typically run for periods of up to five years. Commitments relating to discontinued operations included in the above amount to £4,384,000 (2012: £5,046,000).

27. Foreign Exchange Rates

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

	Closing rate at 30 June 2012	Average rate	Closing rate at 30 June 2013
Danish Krone	9.21	9.0445	8.7146
Euro	1.2389	1.2135	1.1687
US Dollar	1.5681	1.5687	1.5208

Notes to the Consolidated Financial Statements continued

28. Acquisitions

Acquisition of Eurovet Animal Health B.V.

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

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

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

The fair value of the financial assets includes trade receivables with a fair value of £5,669,000.

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

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

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

Acquisition of Genitrix Limited

On 1 December 2010, the Group acquired 100% of the share capital of *Genitrix* Limited. The acquisition of *Genitrix* Limited, a veterinary pharmaceuticals company based in Billingshurst, UK, is consistent with our strategy to grow our domestic and international pharmaceutical business.

The remaining £300,000 contingent consideration outstanding for this acquisition was paid in the period.

28. Acquisitions continued

Acquisition of DermaPet Inc.

On 22 October 2010, the Group acquired 100% of the share capital of *DermaPet* Inc., a Florida based business which develops and markets a range of dermatological preparations, including shampoos, conditioners and ear products, for the US and overseas companion animal markets. These veterinary products are marketed and distributed through the same channels as Dechra's current US product portfolio.

During the period the Group paid a further US$16,000,000 (£10,033,000) in respect of the acquisition of *DermaPet*, Inc. A payment of US$15,000,000 was made which related to the achievement of a contingent milestone target, the remaining US$1,000,000 related to deferred consideration which was paid on the second anniversary of the completion date.

The maximum further consideration payable is US$6,000,000 of which US$1,000,000 is payable on the fourth anniversary of the completion date. The remaining US$5,000,000 is contingent upon revenue exceeding US$20,000,000 in any rolling 12 month period ending on the sixth anniversary of the completion date.

29. Discontinued Operations

On 10 July 2013, the Group announced its intention to dispose of the Services businesses. However, the Group was committed to a plan to sell the businesses prior to 30 June 2013, therefore the assets have been classified as held for sale. The disposal is consistent with the Group's long term policy to focus its activities on the manufacture and marketing of pharmaceutical products.

The Services businesses constitutes a reporting segment in accordance with IFRS 8.

The divestment was completed on 16 August 2013 for sale proceeds of £87.5 million. The costs to sell are £1.5 million (with an associated tax deduction of £0.1 million). Tax on the profit on disposal is expected to be £0.4 million. The completion accounts are yet to be finalised.

The Group has not recognised any impairment losses in respect of the Services businesses, neither when the assets and liabilities of the operation were reclassified to held for sale nor at the end of the reporting period.

The results of the discontinued operations included in the profit for the year are set out below. The Segment was not a discontinued operation or classified as held for sale at 30 June 2012. The comparative consolidated income statement has been represented to show the discontinued operation separately from continuing operations.

Profit for the Year from Discontinued Operations

	2013 £'000	2012 £'000
Revenue	**333,244**	315,672
Cost of sales	**(303,389)**	(287,523)
Gross profit	**29,855**	28,149
Distribution costs	**(12,540)**	(11,853)
Administrative expenses	**(6,203)**	(5,240)
Non-underlying expenses*	**(38)**	(438)
Operating profit	**11,074**	10,618
Net finance (expense)/income	**(5)**	90
Profit before taxation from operating activities	**11,069**	10,708
Income tax expenses	**(2,649)**	(2,864)
Profit for the year	**8,420**	7,844
Expenses related to disposal	**(1,467)**	—
Tax on expenses related to disposal	**110**	—
Profit for the year from discontinued operations	**7,063**	7,844

* Non-underlying items comprise amortisation of acquired intangibles and rationalisation costs.

See note 10 for the Earnings per ordinary share split between continued and discontinued operations.

Notes to the Consolidated Financial Statements continued

29. Discontinued Operations continued

Cash Flows from Discontinued Operations

	2013 £'000	2012 £'000
Net cash inflows from operating activities	**1,305**	4,510
Net cash inflows from investing activities	**(810)**	(534)
Net cash outflows from financing activities (including repayment of intercompany funding)	**(508)**	(30,603)

Assets Held For Sale

The major classes of assets and liabilities of the Services businesses at the end of the reporting period are set out below:

	2013 £'000
Goodwill	**2,621**
Intangible assets	**1,092**
Property, plant and equipment	**1,656**
Inventories	**28,269**
Trade and other receivables	**56,146**
Assets of Services businesses classified as held for sale	**89,784**
Trade and other payables	**(53,961)**
Liabilities of Services businesses classified as held for sale	**(53,961)**
Net assets of Services businesses classified as held for sale	**35,823**

30. 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 155.

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 67 to 83. The remuneration of key management is disclosed in note 7.

31. Off Balance Sheet Arrangements

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

32. Events after the Reporting Period

On 16 August 2013, the Group completed the sale of the Services business for a consideration of £87.5 million. Refer to note 29 for further details of the discontinued operations.

Company Balance Sheet

At 30 June 2013

	Note	2013 £'000	2012 £'000
Fixed assets			
Investments	iii	**251,104**	251,104
Intangible assets	iv	**4,390**	4,901
Tangible assets	v	**207**	—
		255,701	256,005
Current assets			
Debtors (includes amounts falling due after more than one year of £579,000 (2012: £571,000))	vi	**40,978**	21,306
Cash at bank and in hand		**—**	1,052
		40,978	22,358
Creditors: amounts falling due within one year	vii	**(50,331)**	(35,916)
Net current liabilities		**(9,353)**	(13,558)
Total assets less current liabilities		**246,348**	242,447
Creditors: amounts falling due after more than one year	vii	**(103,698)**	(113,800)
Net assets		**142,650**	128,647
Capital and reserves			
Called up share capital	x	**872**	869
Share premium account	xi	**123,485**	122,642
Hedging reserve	xi	**—**	(286)
Profit and loss account	xi	**18,293**	5,422
Total equity Shareholders' funds		**142,650**	128,647

The financial statements were approved by the Board of Directors on 3 September 2013 and are signed on its behalf by:

Ian Page
Chief Executive Officer
3 September 2013

Anne-Francoise Nesmes
Chief Financial Officer
3 September 2013

Company number: 3369634

Reconciliation of Movements in Shareholders' Funds

For the year ended 30 June 2013

	2013 £'000	2012 £'000
At start of year	**128,647**	72,382
Profit for the financial year	**23,220**	4,293
Effective portion of changes in fair value of cash flow hedges	**(140)**	(335)
Cash flow hedges recycled to profit and loss account	**426**	343
Share-based payments charge	**821**	1,001
Dividends paid	**(11,170)**	(8,325)
New shares issued	**846**	59,288
At end of year	**142,650**	128,647

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 £23,220,000 (2012: £4,293,000). Fees paid to KPMG Audit Plc and its associates for audit and non-audit services to the Company itself are not disclosed in the individual Financial Statements of Dechra Pharmaceuticals PLC because the Group Financial Statements are required to disclose such fees on a consolidated basis.

Investments

Investments held as fixed assets are stated at cost less any impairment losses. Where the consideration for the acquisition of a subsidiary undertaking includes shares in the Company to which the provisions of section 612 of the Companies Act 2006 apply, cost represents the nominal value of the shares issued together with the fair value of any additional consideration given and costs. Where investments are denominated in foreign currencies they are treated as monetary assets and revalued at each balance sheet date.

Intangible Assets

Product rights that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses. Product rights are amortised over the period of their useful lives.

Derivative Financial Instruments

The Company uses derivative financial instruments to manage its exposure to foreign exchange and interest rate risks. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value of instruments that do not qualify for hedge accounting is recognised immediately in the profit and loss account.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the instrument at the balance sheet date. The fair value of forward exchange contracts and options is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Hedging

Cash Flow Hedges

Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised as profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Cash Flow Statement

As the ultimate holding company of the Group, the Company has relied upon the exemption in FRS 1 (Revised) not to present a cash flow statement as part of its financial statements.

Notes to the Company Financial Statements continued

(i) Principal Accounting Policies of the Company continued

Dividends

Dividends are recognised in the period in which they are approved by the Company's Shareholders or, in the case of an interim dividend, when the dividend is paid. Dividends receivable from subsidiaries are recognised when either received in cash or applied to reduce a creditor balance with the subsidiary.

Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Related Parties

Under FRS 8 the Company is exempt from the requirement to disclose related party transactions with other Group undertakings as they are all wholly owned within the Group and are included in the Dechra Pharmaceuticals PLC Consolidated Financial Statements.

Transactions with Key Management Personnel

There were no material transactions with key management personnel except for those relating to remuneration (see notes 7 and 30 to the Consolidated Financial Statements) and shareholdings.

Transactions with Other Related Parties

There are no controlling Shareholders of the Company. There have been no material transactions with the Shareholders of the Company.

Employee Benefits

(i) Pensions

The Company operates a Group stakeholder personal pension scheme for certain employees. Obligations for contributions are recognised as an expense in the profit and loss account as incurred.

(ii) Share-based Payment Transactions

The Company operates a number of equity settled share-based payment programmes that allow employees to acquire shares of the Company. The Company also operates a Long Term Incentive Plan for Directors and senior executives.

The fair value of shares or options granted is recognised as an employee expense on a straight-line basis in the profit and loss account with a corresponding movement in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares or options (the vesting period). The fair value of the shares or options granted is measured using a valuation model, taking into account the terms and conditions upon which the shares or options were granted. The amount recognised as an expense in the profit and loss account is adjusted to take into account an estimate of the number of shares or options that are expected to vest together with an adjustment to reflect the number of shares or options that actually do vest except where forfeiture is only due to market-based conditions not being achieved.

The fair values of grants under the Long Term Incentive Plan have been determined using the Monte Carlo simulation model. The fair values of options granted under all other share option schemes have been determined using the Black–Scholes option pricing model.

National Insurance contributions payable by the Company on the intrinsic value of share-based payments at the date of exercise are treated as cash settled awards and revalued to market price at each balance sheet date.

Where the Company grants options over its own shares to the employees of its subsidiaries it recharges the expense to those subsidiaries.

(i) Principal Accounting Policies of the Company continued

Foreign Currency

Foreign currency transactions are translated into Sterling using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities are translated at the closing rate at the reporting date. Foreign exchange gains and losses are recognised in the profit and loss account.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply and have been substantively enacted in the periods in which the timing differences reverse and is provided in respect of all timing differences which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 'Deferred Tax'.

Financial Guarantee Contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(ii) Directors and Employees

Total emoluments of Directors (including pension contributions) amounted to £2,088,000 (2012: £1,727,000). Information relating to Directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 67 to 83.

(iii) Fixed Asset Investments

	Shares in subsidiary undertakings £'000
Cost	
At 1 July 2012	251,104
At 30 June 2013	251,104
Net book value	
At 30 June 2013	251,104
At 30 June 2012	251,104

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

Notes to the Company Financial Statements continued

(iv) Intangible Assets

	Intangible assets £'000
Cost	
At 1 July 2012	5,114
At 30 June 2013	5,114
Amortisation	
At 1 July 2012	213
Charge for the year	511
At 30 June 2013	724
Net book value	
At 30 June 2013	4,390
At 30 June 2012	4,901

(v) Tangible Assets

	Tangible Assets £'000
Cost	
At 1 July 2012	—
Additions	223
At 30 June 2013	223
Depreciation	
At 1 July 2012	—
Charge for the year	16
At 30 June 2013	16
Net book value	
At 30 June 2013	207
At 30 June 2012	—

(vi) Debtors

	2013 £'000	2012 £'000
Amounts owed by subsidiary undertakings	**36,119**	18,735
Group relief receivable	**3,951**	1,699
Deferred taxation (see note (ix))	**579**	571
Other debtors	**176**	301
Prepayments and accrued income	**153**	—
	40,978	21,306

Included in debtors are amounts of £579,000 (2012: £571,000) due after more than one year relating to deferred tax assets. Of the amounts owed by subsidiary undertakings, £nil is due after more than one year (2012: £nil).

(vii) Creditors

	Falling due within one year	
	2013 £'000	2012 £'000
Bank loans and overdrafts (see note (viii))	**15,221**	4,411
Amounts due to subsidiary undertakings	**32,226**	28,557
Other creditors	**—**	18
Derivative financial instruments	**15**	387
Other taxation and social security	**105**	—
Accruals and deferred income	**2,764**	2,543
	50,331	35,916

In accordance with FRS 21 'Events after the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2013 of 9.66p per share (2012: 8.50p per share restated to take into account the bonus element of the Rights Issue) has not been accrued for in these financial statements. It will be shown in the financial statements for the year ending 30 June 2014. The total cost of the proposed final dividend is £8,419,000 (2012: £7,384,000).

	Falling due after more than one year	
	2013 £'000	2011 £'000
Bank loans (see note (viii))	**103,698**	113,800
	103,698	113,800

(viii) Borrowings

	2013 £'000	2012 £'000
Borrowings due within one year		
Bank overdraft	**5,809**	—
Bank loan	**10,000**	5,000
Arrangement fees netted off	**(588)**	(589)
	15,221	4,411
Borrowings due after more than one year		
Aggregate bank loan instalments repayable:		
— between one and two years	**10,000**	10,000
— between two and five years	**95,073**	105,757
	105,073	115,757
Arrangement fees netted off	**(1,375)**	(1,957)
	103,698	113,800
Total borrowings	**118,919**	118,211

The bank loans, revolving credit and overdraft facilities are secured by a fixed and floating charge on the assets of the Group. Interest is charged at 2.5% over LIBOR on the bank loan and revolving credit facility and 2.5% over base rate on the bank overdraft. No covenants have been breached during the year ended 30 June 2013.

The Company guarantees certain borrowings of other Group companies, which at 30 June 2013 amounted to £480,000 (2012: £923,000).

Notes to the Company Financial Statements continued

(ix) Deferred Tax

	£'000
At 1 July 2012	571
Amounts recognised in profit and loss	93
Amounts recognised in equity	(85)
At 30 June 2013 (included in debtors)	579

The amounts provided for deferred taxation at 23% (2012: 24%) are as follows:

	2013 £'000	2012 £'000
Short term timing differences	**576**	571
Accelerated capital allowances	**3**	—
	579	571

(x) Called up Share Capital

Issued share capital	£'000	Ordinary shares of 1p each No.
Allotted, called up and fully paid at 1 July 2012	869	86,870,176
New shares issued	3	287,268
Allotted, called up and fully paid at 30 June 2013	**872**	**87,157,444**

Details of new ordinary shares issued following the exercise of options under the Long Term Incentive Plan and the Approved, Unapproved and SAYE Share Option Schemes are shown in note 23 to the consolidated financial statements.

Share Options

Details of outstanding share options over ordinary shares of 1p at 30 June 2013 under the various Group share option schemes are shown in note 24 to the Consolidated Financial Statements.

(xi) Reserves

	Share premium account £'000	Hedging reserve £'000	Profit and loss account £'000
At 1 July 2012	122,642	(286)	5,422
New shares issued	843	—	—
Profit for the financial year	—	—	23,220
Effective portion of changes in fair value of cash flow hedges	—	(140)	—
Cash flow hedges recycled to profit and loss account	—	426	—
Dividend (see note 9 to the consolidated financial statements)	—	—	(11,170)
Share-based payments charge	—	—	821
At 30 June 2013	**123,485**	**—**	**18,293**

(xii) Subsidiary Undertakings

Dechra Pharmaceuticals PLC is the ultimate parent and controlling party of the Group.

The principal subsidiary undertakings of the Company, all of which are wholly owned, are:

Company	Country of Incorporation	Principal Activity
Operating Subsidiaries		
Albrecht GmbH∞	Germany	Marketer of veterinary products and distributor of veterinary products and equipment
Dechra LimitedΩ	England & Wales	Developer, regulatory, manufacturer and marketer of veterinary products; wholesaler; provider of veterinary laboratory services
Dechra Development LLC**	USA	Regulatory and product development
Dechra Veterinary Products A/S	Denmark	Manufacturer of veterinary products and marketer of veterinary products and pet diets
Dechra Veterinary Products OY#	Finland	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products SAS#	France	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products AS#	Norway	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products SLU#	Spain	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products AB#	Sweden	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products BV#	The Netherlands	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products Limited#	England & Wales	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products LLC**	USA	Marketer of veterinary pharmaceuticals and pet diets
Eurovet NV∞	Belgium	Marketer of veterinary pharmaceuticals and pet diets
Eurovet Animal Health BV	The Netherlands	Manufacturer of veterinary products and marketer of veterinary products and pet diets
Eurovet Animal Health Limited∞	England & Wales	Marketer of veterinary pharmaceuticals and pet diets
National Veterinary Services Limited**	England & Wales	Wholesaler and provider of laboratory services***
Scanimal Health ApS∞	Denmark	Marketer of veterinary pharmaceuticals and pet diets
Other Subsidiaries		
Anglian Manufacturing Chemists Limited‡	England & Wales	Non-trading
Anglian Pharma Manufacturing Limited†	England & Wales	Holding Company
Anglian Pharma Limited	England & Wales	Holding Company
Arnolds Veterinary Products Limited*	England & Wales	Non-trading
Broomco 4263 Limited*	England & Wales	Non-trading
Cambridge Specialist Laboratory Services Limited§	England & Wales	Non-trading
Dales Pharmaceuticals Limited*	England & Wales	Non-trading
Dechra Investments Limited	England & Wales	Holding Company
Farvet Laboratories BV∞	The Netherlands	Non-trading
Leeds Veterinary Laboratories Limited	England & Wales	Non-trading
North Western Laboratories Limited	England & Wales	Holding Company
Veneto Limited	England & Wales	Holding Company
DermaPet, Inc.¶	USA	Non-trading

* 100% of ordinary share capital held by Veneto Limited.
Ω 100% of ordinary share capital held by Dechra Investments Limited.
§ 100% of ordinary share capital held by North Western Laboratories Limited.
† 100% of ordinary share capital held by Anglian Pharma Limited.
‡ 100% of ordinary share capital held by Anglian Pharma Manufacturing Limited.
# 100% of ordinary share capital held by Dechra Veterinary Products A/S .
¶ 100% of ordinary share capital held by Dechra Veterinary Products LLC.
** 100% of ordinary share capital held by Dechra Limited.
∞ 100% of ordinary share capital held by *Eurovet* Animal Health B.V.
*** Sale of subsidiary completed on 16 August 2013. Refer to note 32 for details.

Financial History

	2013 £'000	2012 (Restated)† £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Consolidated income statement						
Revenue	**189,176**	124,330	426,041	389,237	369,369	349,964
Underlying operating profit	**39,108**	25,545	36,601	31,823	28,190	24,971
Underlying profit after taxation	**25,464**	16,029	24,302	22,748	19,437	16,759
Underlying earnings per share						
— basic (pence)	**29.27**	21.35*	32.37*	31.53*	27.09*	23.52*
— diluted (pence)	**29.07**	21.28*	32.27*	31.43*	26.99*	23.33*
Dividend per share (pence)	**14.00**	12.27*	12.27*	11.12*	9.64*	8.36*
Consolidated statement of financial position						
Non-current assets	**235,670**	237,132	242,592	132,819	88,044	97,605
Current assets	**89,672**‡	86,863‡	161,829	137,549	117,483	106,068
Current liabilities	**(49,558)**‡	(48,217)‡	(103,461)	(88,952)	(89,041)	(85,722)
Non-current liabilities	**(136,991)**	(147,278)	(147,278)	(83,083)	(30,258)	(37,265)
Net assets held for sale	**35,823**	25,182	—	—	—	—
Shareholders' funds	**174,616**	153,682	153,682	98,333	86,228	80,686
Consolidated cash flow						
Net cash inflow from operating activities	**36,865**	—	19,242	16,754	17,324	20,334
Net cash outflow from investing activities	**(19,368)**	—	(120,344)	(36,178)	(1,715)	(1,489)
Net cash (outflow)/inflow from financing activities	**(18,266)**	—	103,708	18,867	(10,821)	(14,408)

* Restated to reflect the impact of the bonus element of the Rights Issue.
† Restated to reflect the Services Segment as discontinued operations.
‡ Excluding net assets held for sale.

Glossary

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

API
Active Principal Ingredient

Bio equivalence
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.

CAP
Companion animal products

CE
Continuing Education

CMC
The Chemistry and Manufacturing Controls

Cortisol
A hormone which is made by the adrenal glands. Its production is increased during episodes of stress and it has many effects on the body. It helps regulate blood pressure, the immune system and helps balance the effect of insulin to keep the blood sugar at normal levels.

Cushing's Syndrome
A condition caused by excess cortisol (see above) and is named after the physician who first described the condition in humans in the early twentieth century.

Dechra Values or Values
Dedication, Enjoyment, Courage, Honesty, Relationships and Ambition

DPM
Dechra Pharmaceuticals Manufacturing

DVP EU
Dechra Veterinary Products EU

DVP US
Dechra Veterinary Products US

EBITDA
Earnings before interest, tax, depreciation and amortisation.

Euthyroid
Euthyroid is the state of having normal thyroid gland function.

Executive Directors
The Executive Directors of the Company, currently Ian Page, Anne-Francoise Nesmes, Ed Torr and Tony Griffin

FAP
Food animal producing products

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

FRS
Financial Reporting Standards

FTSE250/350 Index
An index comprising of the 101st to 350th largest companies listed on the London Stock Exchange in terms of their market capitalisation

FTSE Small Cap Index
An index comprising of the 351st to 619th largest listed companies on the London Stock Exchange in terms of their market capitalisation

Hyperthyroidism
Occurs when the thyroid glands produce excessive amounts of thyroid hormone. This causes an increase in the animal's metabolism (the rate at which energy is utilised).

IAS
International Accounting Standards

IFRS
International Financial Reporting Standards

Intertrigo
Refers to a bacterial, fungal or viral infection that has developed at the site of broken skin due to inflammation of body folds. This infection is common in dogs with folds, such as Pugs or Shar Peis.

LIBOR
The London inter-bank offered rate

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.

MRL
Maximum residue level

NADA
New Animal Drug Application

Glossary continued

Non-Executive Directors
The Non-executive Directors of the Company, currently Michael Redmond, Neil Warner, Dr Chris Richards, Julian Heslop and Ishbel Macpherson

NSAID
Non-Steroidal Anti-Inflammatory Drug; essentially drugs which relieve pain, swelling, stiffness and inflammation. Equipalazone is the leading NSAID for the treatment of musculoskeletal disorders in the horse.

Ordinary Shares
An ordinary share of 1 pence in the share capital of the Company

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

PDRA
Dechra's Product Development and Regulatory Affairs team

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.

RIDDOR
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations

Rights Issue
The three for ten rights issue of 20,040,653 shares, details of which are set out in the prospectus of the Company dated 25 April 2012.

SAYE
Save as You Earn Share Scheme

Shareholder
Holder of ordinary shares in Dechra

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.

VCA
Veterinary Centres of America

Shareholder Information

Financial Calendar

Interim Management Statement	17 October 2013
2013 Annual General Meeting	17 October 2013
Final Dividend Ex Div Date	6 November 2013
Final Dividend Record Date	8 November 2013
Final Dividend Payment Date	22 November 2013

Annual General Meeting

The 2013 Annual General Meeting of the Company will be held at 4.00 pm on 17 October 2013 at the offices of the Company at 24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich CW9 7UA. The notice of meeting, which includes special business to be transacted at the Annual General Meeting, is included within the Circular accompanying this Annual Report, together with an explanation of the resolutions to be considered at the meeting.

Company Website

The Dechra website (www.dechra.com) is the best source of useful and up-to-date information about Dechra and its activities, including the latest news, financial and product information to help improve understanding of our business. Additionally, the terms of reference of all our Committees, Articles of Association, our Values and a number of our internal policies are published on the website.

Visit us at our website
www.dechra.com

Registrar

Dechra's Registrar is Computershare Investor Services PLC.

Computershare should be contacted for any matters relating to your shareholding, including:

- Notification of change in name and address
- Enquiries about dividend payments
- Submission of proxy form for voting at the Annual General Meeting

Computershare offers a facility whereby shareholders are able to access their shareholdings in Dechra (and other companies for which Computershare acts as Registrar) via their website (www.investorcentre.co.uk).

Alternatively Computershare can be contacted at:

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

Registrars' Shareholder Helpline for Dechra : 0870 889 4030.

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

Share Dealing Service

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

	Telephone share dealing	Internet share dealing
Fee (on value of transaction)	1%	0.5%
Minimum charge	£25.00	£15.00
Stamp duty charge (purchases only)	0.5%	0.5%

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

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

Warning to Shareholders

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. During the year we were alerted by some of our Shareholders to cold calls which they had received. The callers purport to represent various entities, including Drexel-Bearns, a US based firm. The callers stated that they were seeking to gain control of investor shareholdings held in the Company and/or personal financial information. We believe these to be boiler room scams.

These types of calls are typically from overseas based 'brokers' who target UK shareholders and are commonly referred to as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive. While high profits are promised, those who buy or sell shares in this way usually lose their money.

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

- check the FCA Register at www.fca.org.uk/firms/systems-reporting/register to ensure they are authorised;
- confirm that the firm is genuine by asking them for their firm reference number and contact details. Always use the details on the FCA Register to contact the firm. You should only access the Register from the FCA website at www.fca.org.uk;
- call the FCA Consumer Helpline on 0800 111 6786 if there are no contact details on the Register or you are told they are out of date;
- make additional checks to confirm that you are dealing with the firm direct for example checking the details on the firm's website with directory enquiries or Companies House;
- search the FCA unauthorised firms list; and
- remember: if it sounds too good to be true, it probably is!

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme if things go wrong.

If you are approached about a share scam you should tell the FCA by contacting their Consumer Helpline on 0800 111 678. If you have been offered, bought or sold shares you can use the share fraud reporting form at http://www.fca.org.uk/consumers/scams/investment-scams/share-fraud-and-boiler-room-scams/reporting-form.

If you have already paid money to share fraudsters or suspect fraud you should contact Action Fraud on 0300 123 2040.

Protecting your Identity

Suggestions for safeguarding your shares:

- ensure all your share certificates are kept in a safe place or hold your shares electronically in CREST via a nominee;
- keep all correspondence relating to your shares in a safe place or destroy the correspondence by shredding;
- notify the Registrar of a change of address in writing or via their website (as detailed above);
- consider having your dividend paid directly into your bank account to eliminate the risk of a lost dividend cheque;
- notify the Registrar of bank account detail changes in writing of via their website; and
- if you decide to sell or buy shares use only brokers registered in your own country or the UK.

Advisers

Auditor
KPMG Audit Plc
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Stockbroker & Financial Advisers
Investec Bank plc
2 Gresham Street
London
EC2V 7QP

Lawyers
DLA Piper UK LLP
Victoria Square House
Victoria Square
Birmingham
B2 4DL

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

Financial PR
TooleyStreet Communications
Regency Court
68 Caroline Street
Birmingham
B3 1UG

Principal Bankers
Lloyds TSB Bank plc
2nd Floor
125 Colmore Row
Birmingham
B3 3SF

Principal Bankers continued
Barclays Bank PLC
One Snowhill
Snow Hill Queensway
Birmingham
B3 2WN

Svenska Handelsbanken AB (publ)
Island Reach
Festival Way
Stoke-on-Trent
ST1 5SW

HSBC Bank Plc
Midlands Corporate Banking Centre
4th Floor
120 Edmund Street
Birmingham
B3 2QZ

Trademarks

Dechra Pharmaceuticals PLC, 24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA
T: +44 (0) 1606 814730 F: +44 (0) 1606 814731 E: corporate.enquiries@dechra.com
Registered in England No. 3369634

www.dechra.com