



An International Veterinary  
Pharmaceutical Business

Annual Report and Accounts  
for the year ended 30 June 2010



# Welcome to Dechra

## Our Business

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

## Our Strategy

- To sustain growth from our core businesses
- To deliver medium to long-term growth through the development, organically and by way of in-licensing and acquisition, of our branded veterinary pharmaceutical portfolio of both novel and generic products
- To formulate and develop specialist pet diets
- To license and market key products into international markets

### Key Performance Indicators:

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

The KPIs can be found on pages 30 to 31

### Risks:

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

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

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

# Financial Highlights

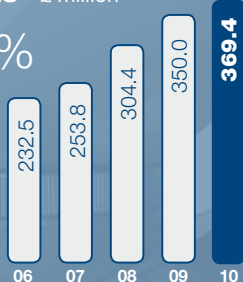
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## Key Achievements

- Solid growth in revenue and profitability
- Increased investment in product pipeline of 35.9%
- Strong cash flow — cash conversion rate of 100.8%
- Significant reduction in net borrowings — down from £15.5 million to £6.7 million
- Dividend increase of 15.4%

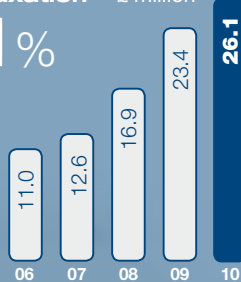
### Revenue £ million

↑6%



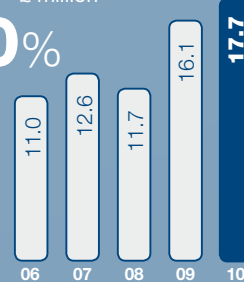
### Adjusted Profit Before Taxation\* £ million

↑11%



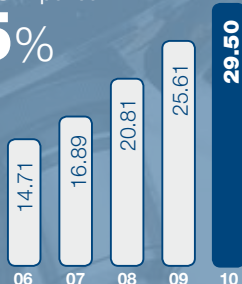
### Profit Before Taxation £ million

↑10%



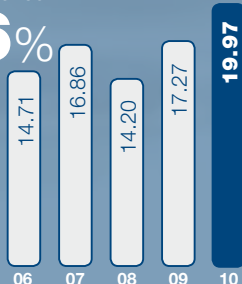
### Adjusted Earnings per Share\* pence

↑15%



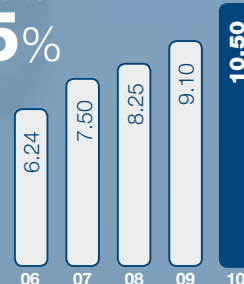
### Earnings per Share pence

↑16%



### Dividend per Share pence

↑15%



\* Adjusted for amortisation of acquired intangibles and exceptional costs

Our Business

Directors' Report:  
Our PerformanceDirectors' Report:  
Our Governance

Our Accounts



## Group at a Glance

### Pharmaceuticals

#### European Pharmaceuticals



##### Dechra Veterinary Products EU (“DVP EU”)

Sales and marketing of Dechra’s licensed branded pharmaceuticals and specialist pet foods to the veterinary profession in Europe



##### Dales® Pharmaceuticals (“Dales”)

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

#### US Pharmaceuticals



##### Dechra Veterinary Products US (“DVP US”)

Marketing and sales organisation for a range of Dechra branded endocrine, ophthalmic, dermatological and equine products into North America

#### European Pharmaceuticals Revenue

up **9.3%**  
to **£84.6 million** (2009: £77.4 million)

#### US Pharmaceuticals Revenue

up **36.7%**  
to **£10.6 million** (2009: £7.8 million)

### Product Development

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 internationally

## Services

### Services



National Veterinary Services

#### National Veterinary Services ("NVS")

UK market leader in the supply of pharmaceuticals and added value services to the veterinary profession



NationWide Laboratories

#### NationWide Laboratories ("NWL")

Multi-disciplined independent commercial veterinary laboratory



Cambridge Specialist Laboratory Services

#### Cambridge Specialist Laboratory Services ("CSLS")

Primary and secondary referral specialist veterinary immunoassay laboratory

### Services Revenue

up **3.5%**

to **£285.7 million** (2009: £276.1 million)



## What Drives Dechra's Success

### Unique Products

We have a novel range of specialist veterinary pharmaceuticals and pet diets. Many of them are market leading innovative products and a number of them unique in their therapeutic category. All of our products are strongly branded in Dechra livery

### People and Expertise

Dechra has attracted a highly qualified and skilled workforce throughout the organisation. This stable and motivated team, with many years of experience and high levels of expertise within the markets we serve, has been a key factor in the sustained growth of the business

### Strategic Focus

We have continuously delivered results based on our clear strategic focus for many years

### International Footprint

The Group has highly experienced and dedicated sales teams in the majority of the world's key companion animal markets and has also developed strong relationships with marketing partners around the world

### Strong Financial Platform

The Group maintains a prudent balance sheet and achieves strong cash flows. This provides flexibility to invest for the long term



### Development Pipeline

We have developed a strong pipeline of novel pharmaceuticals, generic pharmaceuticals and specialist pet diets. This pipeline has successfully delivered products over the years and will be a key driver of future growth for the business

### Strong Market Position

NVS, Dechra's distribution business, is market leader in the supply of products and services to veterinary practices in the UK. The Dechra Veterinary Products brand is recognised across Europe and North America for its quality, innovation and veterinary exclusive marketing position

### Growing Markets

The majority of the world's companion animal markets continue to demonstrate growth. This is driven by the increasing medical and surgical capabilities of veterinary surgeons, increased life expectancy of pets and, ultimately, the consumers' passion for their animals

### Customer Satisfaction

The key focus of our business is to deliver high levels of service and specialist, innovative products, creating strong working relationships with our veterinary clients. Furthermore, we provide educational and training services for our customers including online continuing professional development courses and educational seminars

### Innovation

Dechra has for several years identified and delivered new products and services. This innovation provides Dechra with a solid pipeline, operational efficiencies and a strong competitive position

## Directors' Report: Chairman's Statement



*"Our product development pipeline delivers new products year on year, our international pharmaceutical and diets businesses are delivering good growth and our established UK service business continues to increase its profitability"*

**Michael Redmond, Chairman**

### Introduction

I am pleased to report the Group has continued to deliver against its clear strategy and has performed solidly with increases in revenue and profitability.

We have increased investment in our product pipeline and have continued to strengthen our international businesses which, combined with our established infrastructure, will ensure growth is maintained in the future.

### Financial Highlights

Group revenue increased 5.5% from £350.0 million to £369.4 million.

Adjusted operating profit increased by 12.9% to £28.2 million (2009: £25.0 million). Adjusted profit before taxation rose 11.3% to £26.1 million (2009: £23.4 million). Operating profit after deducting exceptional costs and amortisation of acquired intangibles was £19.9 million (2009: £17.7 million). Profit before taxation on the same basis was £17.7 million (2009: £16.1 million).

Adjusted basic earnings per share was 29.50 pence, up 15.2% from the 25.61 pence achieved in 2009. Earnings per share after exceptional costs and amortisation of acquired intangibles was 19.97 pence (2009: 17.27 pence).

Total cash investment in product development was £5.6 million (2009: £4.2 million), of which £4.7 million was charged to the income statement (2009: £3.4 million). In addition, a payment of £418,000 (2009: £470,000) was made to acquire technology for our product development programme.

During the year, Group cash flow was strong with cash flow from operations being 134.2% of operating profit (2009: 156.0%). This figure was 100.8% (2009: 112.5%) when amortisation of acquired intangibles is added back. Group net borrowings were reduced by £8.8 million in the year from £15.5 million at 30 June 2009 to £6.7 million at 30 June 2010. The Group has committed bank facilities totalling £47.5 million, £10 million of which is renewable on 30 September 2010.

Net debt to EBITDA on an adjusted basis was 0.22 times (2009: 0.57 times). Interest cover on adjusted operating profit was 13.2 times (2009: 16.0 times).

### Dividend

In line with our progressive dividend policy and our confidence in the business, the Directors are recommending an increase in the final dividend to 7.20 pence per share (2009: 6.10 pence per share). This, together with the interim dividend of 3.30 pence per share (2009: 3.00 pence per share), makes a total dividend for the year of 10.50 pence per share (2009: 9.10 pence per share), a 15.4% increase.

The total dividend is covered 2.6 times (2009: 2.8 times) by profit after taxation but after adding back amortisation of acquired intangibles.

The final dividend, which is subject to Shareholder approval at our Annual General Meeting to be held on Friday 5 November 2010, will be paid on 10 December 2010 to Shareholders on the Register at 12 November 2010. The date shares become ex-dividend is 10 November 2010.

### People

On behalf of the Board and our Shareholders I welcome all new employees to the Group. I would also like to thank all employees for their hard work, dedication and innovation in contributing to our successful year.

### Prospects

Although continuing to show growth, most of the markets in which we trade remain competitive with the impact of any future general economic weakness being uncertain. Despite this, our product development pipeline delivers new products year on year, our international pharmaceutical and diets businesses are delivering good growth and our established UK service business continues to increase its profitability. We anticipate that in the long-term market growth will return to historic levels. We therefore remain confident about our future growth prospects.

**Michael Redmond**

Chairman

7 September 2010





## Directors' Report: Business Review



*"We have completed several, and implemented many new, licensing and registration projects and have also advanced the development of novel products, new generic pharmaceuticals and specialist pet diets"*

**Ian Page, Chief Executive and Simon Evans, Group Finance Director**

### Introduction

Against a backdrop of economic uncertainty and a slowdown in the global veterinary markets, Dechra Pharmaceuticals PLC ("Dechra") has once again performed in line with management's expectations and has outperformed the majority of markets in which it trades. Our continued strong growth can be attributed to the consistent long-term execution of our clear strategy, ongoing innovation, strong effective brands and the dedication and hard work of all the Group's employees.

### The Business and its Markets

Dechra operates under four segments:

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

The business employs 1,029 people, operates out of 11 countries and exports products globally.

The Group's strategy is to:

- sustain growth from our core businesses;
- deliver medium to long-term growth through the development, organically and by way of in-licensing and acquisition, of our branded veterinary pharmaceutical portfolio of both novel and generic products;
- formulate and develop specialist pet diets; and
- license and market key products into international markets.

Our branded products business, DVP, is unique in having its sole area of specialisation in companion animal products; our product development pipeline is focused solely on providing products for dogs, cats and horses, the major species within this category.

Our Service businesses in the UK operate in the companion animal, equine and livestock sectors.

The veterinary market for companion animal products has grown strongly over the last ten years, although growth in the last 18 months has slowed reflecting current economic trends. Prevailing growth in the UK veterinary market, which still represents the majority of Dechra's overall sales, has over the years consistently outperformed and still remains ahead of the Retail Price Index.

Veterinary care is the fastest growing sector of the pet industry, albeit at a lower rate than historically. There is currently minimal volume growth; however, inflation remains at 2% – 3%. The key drivers within the companion animal market are the increasing medical and surgical capabilities of veterinary surgeons and increased life expectancy of pets. The consumers' passion for their animals has maintained growth within the marketplace as animal welfare is one of the last areas of a household budget to be sacrificed.

The North American, Western European and Japanese markets are the most established companion animal markets in the world, with pet ownership in over 50% of households and with a high level of spend per animal. The following chart provides details of companion animal populations in the markets in which Dechra currently has a sales and marketing operation:

#### Companion Animal Populations in Dechra Territories

Territory	Dogs (millions)	Cats (millions)	Horses (millions)
USA	75	82	10
France	8	10	1
UK and Ireland	8	8.4	1
Spain	5.5	4	0.6
Scandinavia	2.1	3.1	0.5
Netherlands	2	4	0.4

In addition to its established trading presence in Europe and the USA, the business currently sells products in other countries through marketing partners and has new products in registration in several other important companion animal markets, the most significant of which are detailed below:

#### Companion Animal Populations in Important Non-Subsidiary Countries

Territory	Dogs (millions)	Cats (millions)	Horses (millions)
Japan	12.5	12	0.1
Italy	6.9	6.1	0.3
Canada	6	8	1
Germany	5.3	7.9	1
Australia	3.7	2.4	1.2



## Directors' Report: Business Review

### Case Study Marketing Awards

At the annual Veterinary Marketing Association awards in March, DVP received four prestigious awards for our innovative marketing campaigns, including the esteemed John O'Hara award for outstanding contribution to marketing:

- Best Advertising Campaign for *Equipalazone*®; the creative use of a common method of improving product palatability
- Point of Sale Category and the John O'Hara awards for the *Urilin*® point of sale campaign, which features a quirky take on 'Wet Floor' signage to promote this urinary incontinence drug
- Highly successful direct mail campaign designed to support the Fluids Knowledge Programme; the innovative online CPD solution that complements the *Vetivex*® fluid range

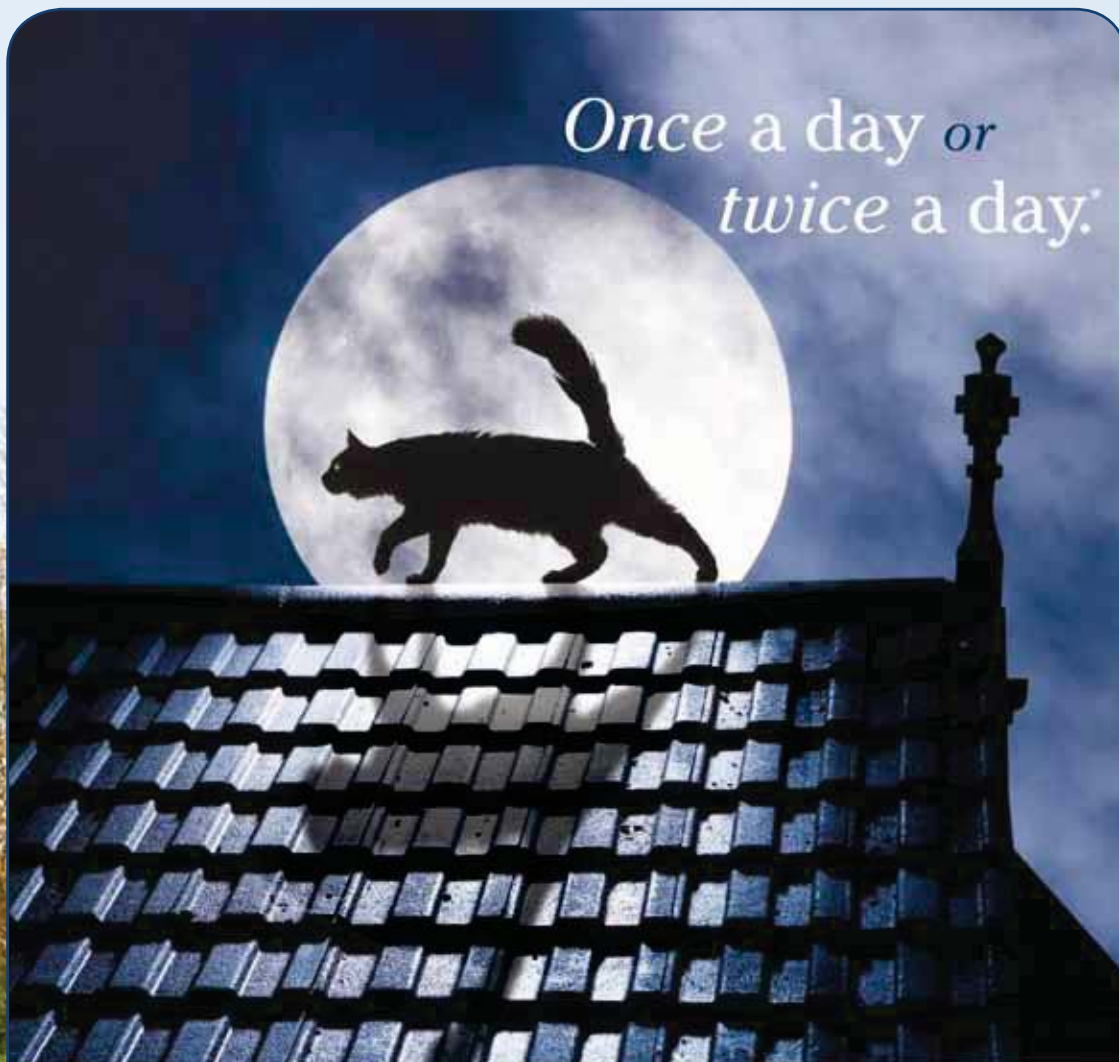
Additionally, DVP's recent *Felimazole*® campaign (an example of which is on the opposite page) has won two prestigious international creative awards in April; a Silver Award in the category of Business to Business Campaign and a Bronze Award for Business to Business Adverts.

Thousands of entries from 24 countries competed for awards in 20 different categories and winners were selected by an international panel of judges including representatives from creative agencies such as Saatchi & Saatchi and Ogilvy 2B Interactive.





Once a day *or*  
twice a day.\*



Whatever it takes to put *him*  
back on top.



FELIMAZOLE 2.5 mg AND 5 mg TABLETS can be combined in nine dose combinations to 'fine tune' the treatment of hyperthyroid cats. *Felimazole* offers you all the flexibility you need to provide the daily dose that your hyperthyroid patients require.

**Felimazole®. Because no two cats are the same.**

\*For optimal efficacy, the starting dose for Felimazole should be 2.5mg twice daily. Felimazole contains thiamazole. UK: POM-V | IE: POM  
Further information is available on request from: Dechra Veterinary Products, Cartmel Drive, Harlescott, Shrewsbury, Shropshire SY1 3TB.  
Tel: +44 (0)1743 441632. Fax: +44 (0)1743 462111. [www.dechra-eu.com](http://www.dechra-eu.com)  
Dechra Veterinary Products is a trading division of Dechra Ltd. Registered Office: Dechra House, Jamage Industrial Estate, Talke Pits, Stoke-on-Trent, Staffordshire ST7 1XW. Registered in England No 4313124.

**Dechra**  
Veterinary Products

## Directors' Report: Business Review

### Key Products and Specialisations

#### Dermatology

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



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

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

*Animax*®, licensed for the treatment of skin conditions in dogs and cats, is only approved in the United States. The marketing rights for this product were acquired in May 2007.

#### Endocrinology

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

*Vetoryl* is a novel product for the treatment of Cushing's Disease (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 Disease around the world.

*Felimazole* was the first veterinary licensed product for the treatment of feline hyperthyroidism. Originally licensed in the UK in 2002, *Felimazole* was then licensed in the EU in 2005, the US in 2009 and was subsequently submitted for approval in new markets.

#### Equine Medicine

We have a wide range of 14 licensed products supporting the equine veterinarian. The lead product with the highest sales is *Equipalazone* which is licensed in five major EU countries.

*Equipalazone* was first licensed in a sachet presentation in 1972 and subsequently in a paste and injection. It is still the leading non-steroidal anti-inflammatory drug (NSAID) for the treatment of musculoskeletal disorders, such as lameness due to acute and chronic laminitis in the horse.

#### 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 worldwide.

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

### Critical Care

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

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

### 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 and we are in the process of in-licensing and registering additional products to extend our generic range within this territory.



### Pet Diets

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

### Care

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

### Marketing Agreements

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

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

## Directors' Report: Business Review

### Product Development

#### Strategy

The Group focuses on solid organic growth within all its businesses.

The key strategic aim, which has delivered excellent growth for several years and will continue to provide significant revenues in the future, is through the development and acquisition of our own branded veterinary product portfolio of novel and generic pharmaceuticals and specialist pet diets and the marketing of these key products into international markets. Our product development is concentrated in two areas:

- Prescription only veterinary medicines ("POMs") for dogs, cats and horses. Most of our projects utilise existing pharmaceutical entities that are typically used within the human market and therefore the majority of product creation is development and not research based.
- Therapeutic pet diets for dogs and cats. Products are formulated and trialled to provide optimum nutrition for animals diagnosed with various medical conditions.

#### Development Achievements

There has been a marked increase in the activity within our Product Development Department during the year.

We have completed several, and implemented many new, licensing and registration projects and have also advanced the development of novel products, new generic pharmaceuticals and specialist pet diets. Furthermore, several new opportunities have been evaluated as we continually strengthen our product portfolio and pipeline.

The key achievements have been:

- mutual recognition of *Malaseb* in 17 countries in November 2009;
- mutual recognition of *Urilin* in 20 countries in April 2010;
- the approval of *Clavudale®*, a generic antibiotic, in the UK in January 2010. This product has now been submitted for mutual recognition in Europe; and
- the approval of *Felimazole* in Canada in August 2009.

We have also successfully implemented the regulatory changes required to bring *Felimazole* sales back in-house and into Dechra following the termination of the licence agreements across Europe.

The *Vetoryl* dossier has been accepted by the Japanese authorities and we are hopeful that the product will reach the market in early 2011. In Japan the product will be branded Adrestan.

Following last year's successful introduction of innovative diets within our *Specific* range, two new second generation therapeutic diets for dogs have been launched: *Specific CIW* for digestive support in December 2009 and *Specific CKD* for kidney and heart support in March 2010. Quality, palatability and packaging improvements have also been made.

Dechra has a proven track record of consistently delivering new products year on year. We continue to identify and evaluate new opportunities and have continued to make progress on the majority of products in development. As previously notified to Shareholders, to support this burgeoning pipeline, product development expense has increased by 35.9% in the financial year being reported from £3.4 million to £4.7 million.

## Case Study

### Launch of our new websites



During the 2009/2010 financial year, we have re-designed and re-launched the DVP and PLC websites.

#### DVP Websites

This is the first phase of an exciting project which enhances DVP's position as a global veterinary brand and utilises the development of the internet as an important route to market.

The DVP websites provide customers with a valuable and up to date source of information on our products and services. They contain details of the full product range and information about the therapy areas that our products treat.

By accessing the UK website, veterinary professionals can improve their clinical knowledge using our web-based learning programmes. We currently offer structured online Continuous Professional Development ("CPD") courses that build expertise in fluid therapy and in feline hyperthyroidism, both programmes have been designed specifically for veterinarians and veterinary nurses.

The US website also offers online continuous education on canine Cushing's and also provides diagnostic checklists, technical materials, product literature and client brochures.

DVP are continuously developing and launching online CPD material on the European websites.



In addition to being able to access the website through [www.dechra.com](http://www.dechra.com), each country in which we operate has its own site where users can view all the products available in their territory. Alternatively, they can choose to view the 'global' website which contains details of all products.

#### PLC Website

The increased use of the internet by investors and other stakeholders and the increasing international focus of our business has led to extensive work being undertaken to re-design and re-develop the Dechra Pharmaceuticals PLC website.

There are now four sections to the website:

- Investor Relations
- Corporate Governance
- Corporate Social Responsibility
- Who we are

Within each section, there is a wealth of information including the latest news and financial and product information to help improve the understanding of our business. Additionally, the terms of reference of all our Committees, Articles of Association and a number of our internal policies are published on the website.

We are continuously adding to this site in order to provide up to date information to all of our stakeholders.



## Directors' Report: Business Review

### Product Pipeline

Significant progress has been made on the development of our novel product portfolio.

*Equidone®*, an equine endocrine product, is now only awaiting final approval by the FDA. The product is targeted for marketing in time to take advantage of its peak sales opportunity in Spring next year.

Priority has been given to an equine lameness product with the efficacy trials making excellent progress with good results. We have recently received notification that the patent application for this product has been successful in Europe.

Following a small field-based trial of an equine respiratory product, we have decided to terminate this project due to inconclusive data and the resultant significant increase in the number of horses which would need to be tested and the accompanying unacceptable costs which would be incurred in a clinical trial.

We have, however, added an additional feline gastrointestinal pharmaceutical product to the novel products development list and are at an advanced stage of creating a suitable formula to commence trials.

The pharmaceutical pipeline has been enhanced further by the signing of a number of development and licensing agreements with:

- Piedmont Pharmaceuticals LLC to develop soft chew technology for a pharmaceuticals product;
- Peptech to extend our marketing agreement for *Ovuplant* into the United States and Canada; and
- a major European generics company to in-license two approved veterinary generics.



## Case Study

### Development of Specific CJD Joint Support

Osteoarthritis is a degenerative joint disease affecting up to 20% of all adult dogs. It can be characterised by destruction of cartilage and inflammation of the joint and causes pain and mobility problems in affected dogs. Osteoarthritis cannot be cured, but management is aimed at the relief of symptoms by use of medical treatment. However, dietary management can also help to support mobility through optimal weight management and the reduction of inflammation and cartilage degradation.

Based on the high incidence of osteoarthritis and the potential benefit of dietary support, it was decided to develop a tailored *Specific* diet for the support of joints and mobility: *Specific* CJD Joint Support. Since other joint diets were already available on the market, the aim was to develop the 'best-in-class' joint diet. During the development phase, research on the effect of diet on osteoarthritis in pets and humans was studied; this resulted in the formulation of the major features of the joint diet and the selection of raw materials to fit into a basic recipe. An effective high level of omega-3 fatty acids was selected as the major feature of the joint diet, as it has been shown that Eicosapentaenoic Acid ("EPA"), a component of omega-3 fatty acids, reduces inflammation, cartilage degradation and clinical signs of osteoarthritis. In order to reach a

high dietary level of EPA, our existing *Specific*'s expertise in the use of fish oil was utilised. Another objective was to provide a low energy density diet as obesity can induce and aggravate osteoarthritis.

As the diet contains a high level of omega-3 fatty acids derived from fish oil, an innovative way of packaging was established to reduce the oxygen content in the bag thereby securing freshness and enabling 2.5 kg, 6.5 kg and 13 kg bags to be introduced to the market.

Prior to the launch a field study over ten weeks was set up in order to document the effect of *Specific* CJD Joint Support on clinical signs of osteoarthritis in dogs; this showed that *Specific* CJD Joint Support significantly improved the osteoarthritis condition and the severity of clinical signs of osteoarthritis in dogs.

*Specific* CJD Joint Support has been well received in our markets and has contributed significantly to the growth of the *Specific* pet diet brand.



## Directors' Report: Business Review



### Product Pipeline continued

The development of our *Specific* dog and cat diet range has made excellent progress; quality, palatability and packaging improvements are an ongoing process. Additionally, the whole feline dry range is being prepared for re-launch with improved palatability. We have two novel products at an advanced stage of development and are also working on a full range of both feline and canine organic products which are targeted to be launched this calendar year.

The following tables outline the major in-house development projects:

### Recently Developed Products

#### Specific CIW & Specific CKD

Two new second generation therapeutic diets for dogs have been launched: *Specific* CIW for digestive support in December 2009 and *Specific* CKD for kidney and heart support in March 2010



#### Urilin and Malaseb

*Malaseb* for the treatment of skin disease and *Urilin* for the treatment of bitch incontinence have been approved through the mutual recognition process across Europe



### New Chemical Entities

Species	Therapeutic Category	Manufacturing	Safety	Efficacy	Regulatory	Target Launch Date
Equine	Endocrine	100%	100%	100%	95%	2010
Equine	Lameness	100%	25%	75%		2012
Canine	Endocrine	75%		25%		2013
Feline	Gastrointestinal	75%				2014
Feline	Endocrine	50%				2015
Equine	Respiratory	Failed in efficacy evaluations				

### Generics/Line Extensions

Species	Therapeutic Category	Manufacturing	Bioequivalence	Regulatory	Target Launch Date
Canine/Feline	Antibiotic	100%	100%	Launched UK	2011
Canine	Urinary Disease	100%	100%	100%	2010
Canine	Pain Management	100%	100%	100%	2010
Canine/Feline	Pain Management	75%			2013
Canine	Dermatological	50%			2013
Canine	Cardiac	25%			2014
Feline	Endocrine	25%	25%		2013

### Diets

Species	Product	Project	Target Launch Date
Feline	Full range	Improved palatability	Q1, 2011
Canine/Feline	Full range	New range of organic wet diets	Q4, 2010
Canine	Novel	New therapeutic category dry diet	Q3, 2011
Feline	Gastrointestinal	Second generation dry diet	Q4, 2011





### Future Activities

- *Equidone*, an equine endocrine product, is now only awaiting final approval by the FDA
- Priority has been given to an equine lameness product with the efficacy trials making excellent progress and with good results
- A new feline gastrointestinal pharmaceutical has been added to the development list

### Future Activities

- Our generic portfolio continues to increase. New products have been identified, in-licensing and partnerships agreed to further extend the range

### Future Activities

- We have two novel products at an advanced stage of development
- We are working on a full range of canine organic products and are at an advanced stage of reformulating the whole feline dry range for re-launch with improved palatability

## Case Study

### FDA Approval Process



**Dr Susan Longhofer**  
Product Development and  
Regulatory Affairs Director

US legislation requires that an animal drug may not be sold in the country unless it is subject to a new animal drug approval.

Novel and generic products are the main types of new animal drug applications that Dechra applies for:

- (a) Novel: for new animal drugs the three key sections for the registration process are:
  - i) Safety: includes a study in the target animal species that evaluates the effects of multiples of the intended dose for up to six months;
  - ii) Efficacy: includes the study(ies) in which the effects of the drug against the targeted disease are demonstrated in animals with naturally occurring disease; and
  - iii) Manufacturing: the quality and purity of the drug product are demonstrated along with proof that the drug product can be manufactured consistently through the production of at least three pilot batches.

These three sections are collectively known as the dossier.

- (b) Generic: approvals for a generic drug require demonstration of *in vivo* bioequivalence of the proposed product to the reference product. There are exceptions for some classes of drugs: primarily those intended for injection. The manufacturing section for a generic drug requires fewer pilot batches than for a new animal drug, but the emphasis on quality and purity is identical.

For both novel and generic applications the FDA allows the key sections of the dossier to be filed as and when they are completed by the sponsoring entity (whereas under the EU regulatory approval process all sections of the dossier are filed simultaneously).

The review process in both situations is document orientated and involves scrutiny of each individual animal's case report form, internal verification of statistical analysis, and FDA inspections of trial sites. The FDA and the EU regulatory authorities conduct inspections of the manufacturing sites to ensure compliance with Good Manufacturing Practice regulations.

## Directors' Report: Business Review

### Introducing the DVP Territory Managers

Dechra Veterinary Products currently operates out of 11 territories, each of which is headed up by a country manager whose background encompasses a wealth of animal health knowledge and experience. These managers are integral to the success of the sales and marketing of our products in their countries.



#### Denmark



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

**email:** info.dk@dechra.com

**website:** www.dechra.dk



#### France



Florence Lasvergères (DVM MBA) was appointed as the Country Manager of France in June 2007. She graduated as a veterinary surgeon from Alfort Vet School in 1988, and obtained a masters in marketing from ESEC-IMD. Florence has over 20 years' experience in the animal health business, in various positions including regulatory, sales, marketing and management, successively with SmithKline Beecham, Upjohn and Pharmacia. She is also an active member of the French Office of Animal Health (SIMV) board.

**email:** info\_fr@dechra.com

**website:** www.dechra.fr



#### Finland



Henri Hilden (DVM) was appointed as the Country Manager of Finland in December 2007. He graduated as a veterinary surgeon in both Sweden and Finland, in 1984 and 1988 respectively. Henri has over 18 years' experience in the animal health business, in management positions for Orion Corporation Animal Health, Intervet Animal Health Finland, Veter Animal Health and Merial Norden A/S.

**email:** info.fi@dechra.com

**website:** www.dechra.fi



#### Norway



Sverre Aasgaard started work with the Group in 1980 and has worked in various roles; he was appointed as the Country Manager of Norway in 2005. Sverre has over 22 years' experience in the animal health business. In 2006 he was appointed Honourable Member of the Norwegian Veterinary Association, being one of only two non-veterinarians to receive this award.

**email:** info@dechra.no

**website:** www.dechra.no



#### Spain & Portugal



Jesper Graff (BBA MBA IESE) started work for the Group in 1991 and was appointed the Country Manager of Spain and Portugal in 1998. He has over 14 years' experience in the animal health business. Jesper was previously an officer in the army. He graduated from Copenhagen Business School and obtained an MBA IESE in Spain.

**email:** info.es@dechra.com

**website:** www.dechra.es

#### The Netherlands



The DVP EU management team is in the process of re-organising our Benelux operations and hopes to appoint a regional manager shortly.

**email:** info.nl@dechra.com

**website:** www.dechra.nl

20/21



### Germany & Austria



Michael Hemprich (MRCVS) started work with Dechra in September 2006 as business development manager; in addition to this role, he has recently been appointed the Country Manager for Germany and Austria. He has over 15 years' experience in the animal health business, having worked for LAB Development Intl in Montreal, Canada, Intervet Innovation GmbH and Bremer Pharma GmbH, mainly within Regulatory Affairs.  
**email:** [www.dechra-eu.com](mailto:www.dechra-eu.com)



### UK & Eire



Bob Parmenter was appointed in July 2008 as the Country Manager of the UK and Eire. He has over 40 years' experience in the animal health business, of which 38 years were spent with ICI Animal Health (subsequently Intervet/Schering Plough). Bob joined the board of NOAH in 2002 and was appointed its Chairman in April 2010.  
**website (Eire):** [www.dechra-eu.com](http://www.dechra-eu.com)  
**website (UK):** [www.dechra.co.uk](http://www.dechra.co.uk)



### Sweden



Carina Kjellberg started in 2000 as the Country Manager of Sweden. She has over 19 years' experience in the animal health business, 11 of which were working as a veterinary nurse.  
**email:** [info.se@dechra.com](mailto:info.se@dechra.com)  
**website:** [www.dechra.se](http://www.dechra.se)



### United States



Mike Eldred was appointed as President of the US operations in 2004. Details of his previous professional experience can be found on page 39.  
**website:** [www.dechra-us.com](http://www.dechra-us.com)



## Directors' Report: Business Review

### European Pharmaceuticals

#### DVP EU — Management Team



- 1 **Ed Torr**  
Managing Director
- 2 **Carsten Jeppesen**  
Chief of Logistics
- 3 **Roeland Meijers**  
Director of Diets
- 4 **Giles Coley**  
European Pharmaceutical  
Sales & Export Director
- 5 **Gwenda Bason**  
European Marketing Director

This segment comprises DVP EU and *Dales*.

#### Dechra Veterinary Products EU

DVP EU, with regional offices in several European countries and its head office and logistics in Uldum, Denmark, employs 206 people. The business markets and sells our own branded, licensed veterinary products within ten European countries and manages the relationships with our worldwide marketing partners.

#### Sales Structure

France	19	Netherlands	7
UK	22	Norway	3
Spain	9	Finland	2
Denmark	4	Portugal	1
Sweden	4	Eire	2

There has been a considerable amount of activity throughout the year. Our UK pre-wholesale warehouse in Shrewsbury was closed in February 2010 with the products being integrated into our central European warehouse in Denmark. A new warehouse management IT system has been successfully implemented at this facility to further improve our stock management and distribution capabilities.

We have consolidated our distribution agreements in Italy, have further strengthened our partnership in Germany and are in the process of restructuring our Dutch business to create a Benelux unit which will take responsibility for our pharmaceutical and diets sales into this region. We have commenced the process of implementing an ERP system across our European subsidiaries which is targeted to go live within two years.

There has been a major re-launch of the DVP websites which now provide easily accessible data and information on all of our products, including clinical data sheets, client information, COSHH data sheets, technical specifications and marketing information. We have also developed online continuing professional development ("CPD") programmes for veterinarians. Our Fluid Knowledge Programme, launched in April 2009, has proved very successful with over 6,000 veterinary professionals registering. This has played a major part in increasing sales of our *Vetivex* range. An online *Felimazole* CPD programme is now operational and a programme to further enhance this learning medium into our other key therapeutic categories has been instigated.

#### Pharmaceuticals

European pharmaceutical sales increased by 8.4% over the period.

There were two major pharmaceutical launches within the year:

- *Malaseb* was launched across all territories following its approval through the mutual recognition procedure; and
- *Felimazole* was re-launched into The Netherlands, France, Spain, Germany and Portugal under the Dechra label following the termination of our major European marketing contract in December 2009. We have also launched a new strength 2.5mg presentation across these territories.

An agreement has been made for the early termination with our marketing partner in Scandinavia which will allow for both *Vetoryl* and *Felimazole* to be marketed through our own subsidiaries from



1 January 2011. We have also terminated an agreement which was in place in Germany, Belgium and Italy to bring in-house a number of other products which were acquired through our acquisition of VetXX® in January 2008.

All major product categories have shown growth throughout the year. We have reversed the downward trend reported in our half yearly report on *Canaural* and are now seeing growth within the year. We have also reversed the position on *Vetivex* seen last year, increasing market share from 35% to 47%. Our established product, *Equipalazone*, has seen double digit growth and our dermatological products continue to perform well.

We have continued to develop relationships with our international partners with whom we are working closely to increase our sales across non-subsidiary territories. We have provided expertise in both Canada and Australia to ensure the successful launch of *Vetoryl* into these countries.

#### Diets

Sales of both our therapeutic and life stage pet diets have outperformed the market; therapeutics growing at 12.7% and maintenance diets, including treats, growing at 12.2%. This success can be attributed to new product launches, competitive pricing, a veterinary exclusive marketing position and a focused sales and marketing effort.

The launch of the new best in class diets, *Specific* CID and *Specific* CKD, have proved to be successful. We have also continued to focus closely on marketing *Specific* CJD, our joint support diet which was launched at the end of the previous financial year.

The complete *Specific* range has been launched into Germany through our partner, Selectavet.

We have been successful in transferring all the canine dry diets to a new manufacturer in Sweden and are now focusing on the transfer of the feline diets into this facility which will be completed by the end of the 2010 calendar year. This manufacturing partner has worked closely with us to ensure the successful launch of our new products and to accelerate our development capabilities. This partnership also offers numerous other benefits including improved quality control and modern, flexible packaging capabilities.

## Directors' Report: Business Review

### European Pharmaceuticals continued

#### Dales — Management Team



- 1 **Mike Annice**  
Managing Director
- 2 **Kirsty Ireland**  
Finance Director
- 3 **Steve Dewar**  
Operations Director
- 4 **Gareth Davies**  
Sales and Marketing Director
- 5 **Andrew Parkinson**  
Quality Director

#### Dales

*Dales*, located in Skipton, England, employing 206 people, is a fully Medicines and Healthcare Regulatory Agency ("MHRA") approved pharmaceutical manufacturer with multi-competence in both scale and dose form. *Dales* manufactures the vast majority of our own branded licensed pharmaceutical products, which are marketed through DVP, but also derives approximately 50% of revenues from third party toll manufacture, predominantly for human pharmaceutical companies. This is Dechra's only significant source of revenue not derived from the veterinary market.

*Dales* has had another excellent year which is reflected in the continued increase in production of our own licensed products, 11% growth from contract manufacturing and over £800,000 worth of new annualised contract business gained during the year. We have also continued with our product rationalisation programme and are now in a position to either increase prices or to cease contracts which have low value return or have been identified as inefficiently manufactured products. This can be demonstrated by an average increase in unit added value of over 12% and through significant gains in productivity.

*Dales* are in the second phase of staff training in lean manufacturing techniques. Lean techniques have been applied to the business and have already brought about significant improvements in working practices and efficiencies, an example of its success being the year on year reduction of the average processing time to manufacture a batch of product.

*Fuciderm*, a product acquired during the *VetXX* acquisition in 2008, which was previously outsourced, has now been fully integrated into *Dales* on a new high speed production line. *Canaural*, another major product from the acquisition, is now at the stage of planning and preparation for transfer into Skipton.

The *Dales* Management team has taken control of our Danish manufacturing unit and has implemented the Oracle manufacturing IT system into this site to enable better production control and improve management information.

Dechra's Product Development and Regulatory team have submitted a line extension for *Vetoryl* to the US FDA with *Dales* named as the manufacturer. This is the trigger for an FDA approval inspection of the site for solid oral dosage forms. A mock audit has been completed and we believe we are on schedule to demonstrate our compliance to all Good Manufacturing Practice regulations.



## US Pharmaceuticals

### DVP US — Management Team



- 1 **Mike Eldred**  
President, US Operations
- 2 **Doug Hubert**  
Vice-President, Sales and Marketing
- 3 **Dana Fertig**  
Veterinary Technical Services Manager

This segment comprises DVP US.

### Dechra Veterinary Products US

This business employs 18 people, 10 of whom are in sales. The financial, logistics and HR functions are currently outsourced.

US pharmaceutical sales increased by 37% over the period. The main focus of activity has been on establishing *Vetoryl* as the treatment of choice for Cushing's Disease. Sales of US\$6.6 million were achieved in the period, as we continue to gain strong market penetration. This is in a market where there is the continued sale of illegally compounded *Vetoryl* and the continued use of the unlicensed treatment, Lysodren. Approximately 9,900 clinics, equivalent to over 40% of companion animal practices, have now purchased the product and over 4,500 veterinarians

have attended educational presentations. In addition, [www.dechraCE.com](http://www.dechraCE.com) has been developed to provide ongoing education on the diagnosis and treatment of Cushing's Disease.

The graph on this page shows the comparative performance of *Vetoryl* by territory from launch, relative to the number of animals in each territory.

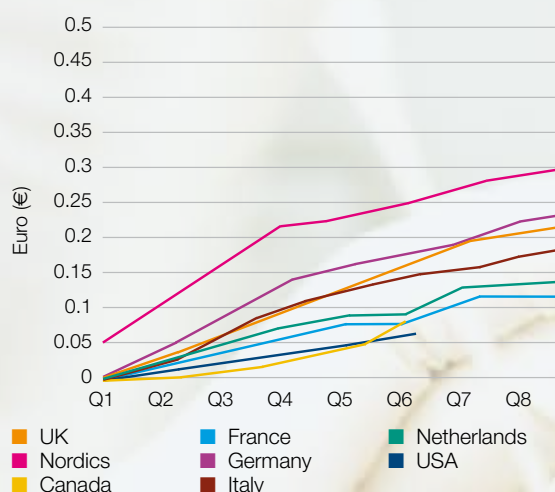
As can be seen from the graph, the trend in the US and Canada, although marginally below that of the European territories, is following the same trend. We therefore remain confident of our long-term targets for this unique product.

Towards the end of 2009 *Felimagazole* was launched into the American market. Initial take-up of the product has been promising as we educate veterinarians in the merits of prescribing our licensed product instead of human generics which are currently used.

Supply problems with our dermatological, ophthalmic and otic ranges, which are outside of our control, have detracted from the overall sales growth in the US. Our sterile ophthalmic products, with annual sales of over US\$2.0 million, have been taken off the market following the closure of our suppliers' sterile facility and we are in the process of transferring these products into a new contract manufacturer. We have also had supply problems with *Animax* cream and *Vetromax*® throughout the year. We currently have little control over these products as we only have a long-term marketing agreement and are not the license holders. We are, however, in negotiations to address this issue.

Our equine portfolio will be significantly enhanced in 2011 with the targeted launch of *Equidone* and with the re-launch of *Ovuplant* following the acquisition of the marketing rights from Peptech.

**MAT Vetoryl sales per dog by country from launch**



# Directors' Report: Business Review

## Services

### NVS — Management Team



- 1 **Martin Riley**  
Managing Director
- 2 **Dan Shipman**  
Finance Director
- 3 **Steven Williams**  
Operations Director
- 4 **Caitrina Harrison**  
Sales and Marketing Director
- 5 **Colin Higham**  
Buying Director

This segment comprises National Veterinary Services (“NVS”) and our laboratories, NationWide Laboratories (“NWL”) and Cambridge Specialist Laboratory Services (“CSLS”).

**NVS**

NVS, located in Stoke-on-Trent, England, employing 490 people, is the UK market leader, as measured in terms of market share, in the supply and distribution of veterinary products to veterinary practices and other approved outlets. This business competes with two major full line competitors on the UK mainland, Centaur Services and Dunlops, both of which are under American ownership.

NVS stocks a range of over 14,000 products including pharmaceuticals, pet products, consumables and accessories. NVS has also developed a range of IT solutions for veterinary practices which are branded *Vetcom®*. *Vetcom*’s principle objective is to collect orders electronically; 85% of NVS’s orders arrive automatically with no human input required. NVS distributes to 1,800 customers daily utilising its own fleet of vans and HGVs. The centralised inventory in Stoke-on-Trent is picked and packed throughout the afternoon and evening and then distributed overnight to nine trunking depots by HGVs. Van drivers are employed locally at these depots who distribute the goods to our customers.





Although the National Office of Animal Health (“NOAH”) reported that the veterinary pharmaceutical market was flat within the year, the overall veterinary wholesale market grew by 4.6%. NVS's growth in the period of 3.6% was below this figure due to our underweight market share of low margin internet pharmacy and agricultural merchant business. NVS maintained its operating margin throughout the year at the same level achieved in the financial year ended 30 June 2009. This excellent cost control and improved operational efficiencies resulted in a solid performance from the business.





## Directors' Report: Business Review

### Services continued

#### Laboratories — Management Team



- 1 **Dr Peter Graham**  
Managing Director
- 2 **Jamie Whitwam**  
Business Development Manager
- 3 **Mark Davies**  
Sales and Marketing Manager
- 4 **Paul Sandland**  
Finance Director

A newly appointed Operations Director identified various additional operational efficiencies and has also instigated plans for further changes including modifications to shift patterns which should ensure continued operational prudence in the forthcoming year. The renewal of our Transit and trunker fleet has also resulted in improvements in fuel efficiency. The planned expansion of the NVS facility has been shelved temporarily as we have found improved methods of utilising existing available space.

NVS continues to focus on high levels of customer service with our service level consistently achieving over 99%. The vast majority of our dedicated vehicle fleet also managed to make deliveries to schedule throughout the bad weather in January when our competitors often failed. This was very well received by our customers.

We are at the final stage of planning and testing for a new ERP system. We intend to 'go live' prior to the end of the current financial year ending June 2011.

#### Laboratories

NWL operates out of three UK locations, Poulton-le-Fylde, Leeds and Swanscombe and employs 70 people. As first referral veterinary laboratories, they provide histology, pathology, haematology, chemistry and microbiology services to veterinary practices. Whilst a certain amount of simple chemistry is performed at veterinary practices, nearly all will outsource more advanced analytical tests, often requiring expert interpretation of results.



CSLS, located in Sawston, England employs seven people. It operates as a first and second referral laboratory, with a key area of expertise being endocrinology. The second referral work, i.e. providing services for NWL and some of NWL's competitors, is mainly derived from a key area of specialisation in radio-immuno assays. The business also provides precise assays which support the dosage regimes and patient monitoring of our key products, *Vetoryl* and *Felimazole*.

Sales across our laboratories were 1.6% down reflecting a significant account loss due to a competitor cross-selling in-house analysers with external laboratory work. There were, however, a number of achievements resulting in the year ending on a positive note. We have secured the rights to market a Fuji in-practice chemistry analyser which should generate additional revenue and improve our competitive position. We have also successfully retained our largest account, the PDSA, for two more years following a competitive tender. Operationally, we have unified the IT system across two of our major sites, Leeds and Poulton, and have also maintained our UKAS ISO17025 status at these two sites.

CSLS has been relocated in the year into a new custom-built laboratory which provides additional space, improved facilities and better working conditions.

### Human Resources

As the Group continues to grow it is important that the leadership capability is strengthened through the continuous development of its most senior people. To this effect throughout 2009 we embarked upon a specific programme of leadership development, where each of the senior managers underwent a 360 degree appraisal of their leadership abilities together with an analysis of their personal profiles. This was followed by a 12 month individually tailored personal development plan which included access to a personal coach.

The Group first started benchmarking labour turnover in July 2008 and found that this figure was high, at 30.2%, compared to national averages. During the following year, managers and supervisors took part in a performance management training programme, gaining the skills needed to better engage their staff. In April 2010, a Works Council was established at NVS which led to improved communications and employee engagement. At the end of June 2010, total labour turnover has almost halved to 15.9%.

The stability of the Group's senior management team is of paramount importance in ensuring strong and consistent leadership in the pursuit of our strategic aims. To this end only one member of the senior management team, Tony Scott, Operations Director at NVS, has left the business during the financial year, retiring after serving for 16 years. Replacing him in this role is Steven Williams, who brings with him a wealth of logistics and supply chain experience. The senior Dechra team has been further strengthened during the year by the appointment of a fourth independent Non-Executive Director, Bryan Morton, and by the creation of a new role of Group Financial Controller, to which Paul Sandland has been appointed.

# Directors' Report: Business Review

## Key Performance Indicators ("KPIs")

Financial	Method of Calculation	Target
<b>Revenue from key pharmaceutical products</b>	Global revenue from <i>Vetoryl</i> , <i>Felimazole</i> , <i>Equipalazone</i> , <i>Canaural</i> and <i>Fuciderm</i>	To achieve annual revenue growth of at least 10%
<b>Revenue from specialist pet diets</b>	Global revenue from the <i>Specific</i> brand of pet diets	To achieve annual revenue growth of at least 6%
<b>Adjusted operating margin before product development cost</b>	Group operating profit before amortisation of acquired intangibles, exceptional items and product development expenditure as a percentage of Group revenue	To achieve an adjusted operating margin before product development costs of 10% in the medium-term
<b>Cash conversion rate</b>	Cash generated from operations before tax and interest payments as a percentage of operating profit before amortisation of acquired intangibles	To achieve an annual cash conversion rate of at least 100%
<b>Return on capital employed ("ROCE")</b>	Adjusted operating profit as a percentage of average operating assets utilised. Operating assets exclude cash and cash equivalents, borrowings, tax and deferred tax balances	To achieve a return on capital employed which exceeds the pre-tax weighted average cost of capital of the Group ("WACC")
Non-Financial	Method of Calculation	Target
<b>Pharmaceutical product development pipeline</b>	Number of products from the pipeline or in-licensed into at least one major territory with long-term revenue potential of at least £0.5 million	One new diet or range extension launched in the EU, two new pharmaceuticals, each launched in at least one key market
<b>Health and safety performance</b>	Lost Time Accident Frequency Rate ("LTAFR"): all accidents resulting in absence or the inability of employees to conduct the full range of their normal working activities for a period of more than three working days after the day when the incident occurred normalised per 100,000 hours worked	Zero preventable accidents
<b>Employees</b>	Employee turnover calculated as number of leavers during the period as a percentage of the average total number of employees in the period	Moving Annual Turnover ("MAT") rate of less than 15%



## 2010 Performance

An annual growth rate of 24.5% was achieved in the year with particularly strong growth being achieved by *Vetoryl*, *Felimazole* and *Equipalazone*

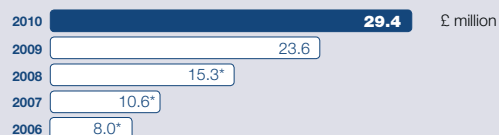
Revenue growth of 12.5% was achieved in the year. This growth rate was accelerated by additions to the range as detailed on pages 14, 17 and 19

2010 showed further progress towards the medium-term goal with adjusted operating margin increasing to 8.9% compared to 8.1% in 2009

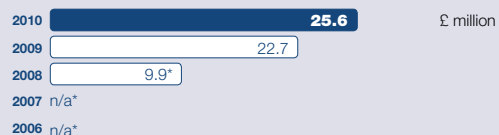
The target was achieved for four of the last five years

ROCE reduced following the acquisition of *VetXX* in January 2008. In the current year, ROCE has improved strongly and is significantly ahead of the pre-tax WACC of the Group of 11%

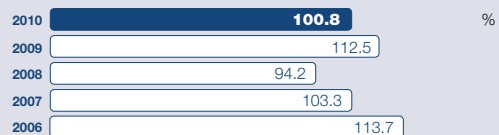
## Five Year Record



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



\* Diets range acquired in January 2008



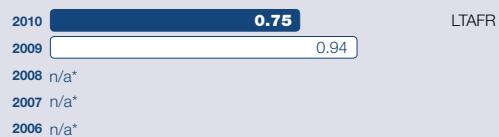
## 2010 Performance

Two pharmaceutical products registered and launched in EU. Two pharmaceutical products in-licensed. Two novel diets launched

There has been a reduction in the number of accidents during the year from 16 to 14. None of these accidents have resulted in a work-related fatality. More detail in relation to this can be found in the Social, Ethical and Environmental Responsibilities on pages 60 to 65

The target was nearly achieved this financial year, with the MAT rate reducing from 19.81% to 15.88%  
More detail in relation to this can be found in the Social, Ethical and Environmental Responsibilities on pages 60 to 65

## Five Year Record



\* Information not collected for these years



\* Information not collected for these years

# Directors' Report: Business Review

## Financial Review

### Group Performance

During the financial year being reported, the majority of markets that we serve continued to experience a slowdown compared to the previous period. For example, in the UK, market growth (measured at wholesaler level) fell from 6.8% in the prior twelve-month period to 4.6% this year.

Despite this backdrop, the Group performed solidly during the financial year driven, in particular, by continued strong performances from our key products.

The following Review focuses on adjusted figures (before amortisation of acquired intangibles and exceptional items) as the Directors believe that these give a clearer indication of underlying performance.

Group Revenue increased by 5.5% from £350.0 million to £369.4 million whilst adjusted Operating Profit increased by 12.9% from £25.0 million to £28.2 million. Adjusted Pre-tax profit was £26.1 million compared to £23.4 million last year, an increase of 11.3%.

### European Pharmaceuticals

	2010 £'000	2009 £'000
<b>Revenue</b>		
Own branded pharmaceuticals	44,695	41,221
Diets	25,559	22,716
Third party contract manufacturing	11,524	10,369
Instruments, consumables and equipment	2,859	3,105
<b>Total revenue</b>	<b>84,637</b>	<b>77,411</b>
<b>Adjusted operating profit</b>	<b>21,412</b>	<b>17,964</b>
<b>Adjusted operating margin</b>	<b>25.3%</b>	<b>23.2%</b>

Total revenue increased by 9.3% over last year with all core areas achieving good growth.

Own branded pharmaceuticals grew by 8.4% compared to last year. Global performance of our key pharmaceutical brands is discussed later in this Review.

Diets performed strongly, growing by 12.5% compared to last year. During the year there have been additions to the range and our veterinary exclusive stance has served us well.

Our contract manufacturing activity continued to expand, increasing by 11.1% in the period with new contract gains contributing to this performance.

Revenue from instruments, consumables and equipment fell by 7.9% as the market became increasingly competitive.

The adjusted operating margin of this segment showed a pleasing increase from 23.2% to 25.3% as increased leverage of our overseas sales and marketing resource was achieved.

In February 2010, the logistics and finance functions of our DVP UK operation in Shrewsbury were integrated into our central logistics and shared service centre in Uldum, Denmark. The cost was £1.1 million which is shown as an exceptional item. This rationalisation will yield significant cost savings in the future and, equally importantly, means that we now have a fully integrated European operation.

**US Pharmaceuticals**

	2010 £'000	2009 £'000
Revenue	10,634	7,779
Adjusted operating profit	1,311	815
Adjusted operating margin	12.3%	10.5%

Our US operation recorded revenue growth of 36.7% compared to last year. Revenue from *Vetoryl* increased from US\$2.2 million to US\$6.6 million whilst revenue of US\$0.6 million was achieved by *Felimazole* since its US launch in September 2009. As already indicated, revenue was negatively impacted by supply problems with our dermatological, ophthalmic and otic range due to circumstances beyond our control.

Significant investment in personnel and infrastructure has been made since the launch of *Vetoryl* in January 2009 and this resulted in the cost base increasing by £1.1 million compared to last year. In addition, there was an amortisation charge of £537,000 (2009: £210,000) in respect of the development costs of US *Vetoryl* and *Felimazole*.

Because of these cost increases, the operating margin of this segment only increased from 10.5% to 12.3%. We anticipate operating margin to further improve in the medium-term as our US operation gains critical mass.

**Key Pharmaceutical Brands**

All of our key brands showed growth in the year with our lead product, *Vetoryl*, achieving revenue growth of 47.8% compared to last year.

*Felimazole* continued to be under competitive pressure in the UK but performed strongly in the rest of Europe. In most European territories, the product came back in-house from our marketing partner in January of this year. We also achieved our first US revenues.



## Directors' Report: Business Review

*Equipalazone*, which is a mature product, showed extremely strong growth whilst *Canaural* and *Fuciderm*, after poor performances in the first half of the year, recovered in the second half.

### Services

	2010 £'000	2009 £'000
<b>Revenue</b>		
Veterinary wholesaling	280,385	270,772
Laboratories	5,285	5,369
<b>Total revenue</b>	<b>285,670</b>	276,141
<b>Adjusted operating profit</b>	<b>13,103</b>	12,334
<b>Adjusted operating margin</b>	<b>4.6%</b>	4.5%

Overall, segment revenue grew by 3.5% with *NVS* increasing by 3.6% and the Laboratories being flat.

With the wholesaling market showing a further slowdown compared to last year and opportunities to enhance gross margin being fewer, *NVS* controlled costs extremely tightly in order to slightly improve operating margin compared to last year. Operating costs were, in fact, lower than last year in absolute terms.

The performance of the Laboratories reflects the current market where, due to economic conditions, veterinary practices are sending fewer samples to external laboratories.

### Product Development

Product development expenditure increased by 35.9% from £3.4 million to £4.7 million. A full description of activities during the year can be found on pages 14 to 19.

### Unallocated Central Costs

Unallocated Central costs increased from £2.7 million to £3.0 million which includes the strengthening of the Group Finance and Legal and Secretarial functions.

### Exceptional Items

The following items have been disclosed separately as exceptional items:

- Rationalisation of our logistics and finance functions within our European Pharmaceuticals segment (£1.1 million)
- Impairment of the carrying value of acquired patent rights and trademarks following the termination of the development of an equine respiratory product (£0.2 million)
- Payment to in-license technology for our research and development programme (£0.4 million)

### Net Finance Expense

Although net finance expense increased from £1.6 million in the previous year to £2.1 million this year, last year's figure was flattered by a £1.1 million gain on the re-translation of foreign currency loans and fair value gains on derivatives. The net gain this year was just £0.2 million.

The interest payable on our bank borrowings was increased by £0.9 million due to a floor and ceiling hedge taken out before interest rates fell to their current low levels. This hedge unwinds in December 2010 following which the Group will benefit from lower interest rates.

### Impact of Foreign Exchange

The major foreign currencies that the Group trades in are Danish Krone, Euro, US Dollar and, to a lesser extent, Norwegian and Swedish Krone. The following table shows the impact on revenue and operating profit of movements in foreign currency in the current year:

	Revenue £'000	Operating profit £'000
European Pharmaceuticals	1,387	(112)
US Pharmaceuticals	228	(117)

The Services segment has no significant foreign currency exposure.

### Taxation

The effective tax rate was 25.8% compared to 29.8% last year and a standard UK rate of 28.0%. The reasons for the lower than standard charge were the utilisation of trading losses in overseas subsidiaries and adjustments in respect of prior periods. The total charge in future years is likely to be closer to the standard UK rate.

### Earnings per Share and Dividend

Adjusted earnings per share increased from 25.61p to 29.50p, a rise of 15.2%. The Board is proposing a final dividend of 7.20p per share which, when added to the interim dividend of 3.30p per share already paid, gives a total dividend for the year of 10.50p, a 15.4% increase on the 2009 figure of 9.10p.

The total dividend is covered 2.6 times (2009: 2.8 times) by profit after tax after adding back amortisation of acquired intangibles.

### Cash Flow

The cash conversion rate (defined as cash generated from operations as a percentage of operating profit) was 134.2% (2009: 156.0%). When amortisation of acquired intangibles is added back, the cash conversion rate is 100.8% (2009: 112.5%). This was the fourth year out of the last five that the cash conversion rate measured on this basis has exceeded 100%.

### Key Performance Indicators

Financial key performance indicators are discussed on pages 30 to 31.

### Financial Position at the Year End

	2010 £'000	2009 £'000
Non-current assets		
Intangible assets	80,371	89,565
Property, plant and equipment	7,673	8,040
	88,044	97,605
Working capital	21,486	17,548
Current tax liability	(4,105)	(4,756)
Deferred tax liability	(12,496)	(14,184)
Net borrowings	(6,701)	(15,527)
Net assets	86,228	80,686

The strong cash flow of the Group has again resulted in a substantial reduction in net borrowings, down from £15.5 million at 30 June 2009 to £6.7 million at 30 June 2010. Net borrowings at 30 June 2008, following the acquisition of VetXX Holding A/S, were £27.0 million.

As normal, due to the working capital cycle of the Group, we expect net borrowings to increase at the next reporting date of 31 December 2010.

### Risks and Uncertainties

As we have stated in previous reports, the Group, like every business, faces risks and uncertainties in both its day-to-day operations and through events relating to the achievement of its long-term strategic objectives. The Board has ultimate responsibility for risk management within the Group and there is an ongoing and embedded process of assessing, monitoring, managing and reporting on significant risks faced by the separate business units and by the Group as a whole. More detail in relation to this process can be found within the Corporate Governance section on pages 40 to 47.

The table on the following page highlights the main potential risks to the Group strategy, as identified by the Board, and the controls put in place in order to mitigate the said risks.

## Directors' Report: Business Review

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

Strategy	Risk
<b>To sustain growth from our core businesses</b>	The failure of a major customer or supplier
	Competitor product launched against one of our leading brands
	Failure to meet regulatory requirements under which we operate thereby disrupting our operations and our product manufacture pipeline/loss of key products due to regulatory changes
	Fuel shortage/logistics failure
	Loss of key personnel
<b>To develop veterinary pharmaceutical portfolio</b>	Failure of clinical trials
<b>To develop specialist diets</b>	Failure to maintain competitive advantage in terms of palatability and nutritional value
	Increase in market cost of ingredients
<b>To license and market key products into international markets</b>	Revenue from recently launched new products failing to meet expectations



## Controls

- The business unit monitors the financial status of both key customers and suppliers and maintains regular contact with them
- Where it becomes evident that issues in relation to manufacturing/supply may arise alternative suppliers are identified and detailed plans drafted which, *inter alia*, ensure that where a manufacturing transfer is required existing stock is built up in order to avoid/mitigate an out of stock situation
- All contracts with suppliers and customers are reviewed from both a commercial and legal angle and to ensure that assignment of the contract is allowed should there be a change of control of either of the contracting parties
- Product improvement plans and marketing strategies are reviewed on a regular basis
- Where competitor products are launched a response strategy is established and followed which allow the marketing team to position our products defensively and highlight any unique selling points or competitive advantages
- 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
- 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
- Particularly in our services division standard operating procedures have been drafted in respect of fuel emergencies/failure of the courier company (the latter in respect of the Laboratories only) to provide a daily service. Such standard operating procedures are regularly reviewed in order to ensure they remain effective
- Delivery routes are constantly monitored by the operations department in order to ensure that they remain effective, economic and efficient
- Succession planning is given consideration by the Board and, where deemed necessary, Key Man insurance is in place
- The Group HR director has developed and implemented a leadership development course for the senior management team in order to further strengthen the retention of the individuals
- A competitive benefits package and salary is offered to senior management in order to assist with their motivation and retention
- Before major efficacy studies are initiated, smaller proof of concept studies are conducted to study the effects of the drug in the target species and for the target indication
- Pharmacokinetics of the proposed final formulation of the drug are studied in the target species
- Manufacturing being transferred to a new supplier with increased development and quality control procedures
- Weekly telephone meetings are held with the manufacturing, quality and product development departments
- Product prices are reviewed on a regular basis and all new products are evaluated from a technical perspective in order to ensure that these advantages can be utilised to assist in selling the diet products
- Supplier of ingredients is owned by the biggest producer of cereals in Scandinavia thereby guaranteeing competitive prices
- 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
- In respect of all new product launches a detailed marketing plan is established. Progress against the plan is constantly monitored
- Alongside the marketing plan the sales team is trained in relation to the new product, its benefits and all available technical information

## Directors' Report: Board of Directors



- 1 Ian Page
- 2 Simon Evans
- 3 Ed Torr
- 4 Michael Redmond
- 5 Malcolm Diamond
- 6 Neil Warner
- 7 Bryan Morton



### **Ian Page** Chief Executive

Aged 49, 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.

### **Simon Evans BCom, ACA** Group Finance Director

Aged 46, Simon qualified as a Chartered Accountant in 1988 and spent seven years at KPMG. He joined NVS in 1992 and was appointed Group Finance Director in 1997 following the MBO. He played a major role in the management buy-out of the Group from Lloyds Chemists in 1997 and its subsequent listing on the London Stock Exchange in 2000.

### **Ed Torr** Managing Director of Dechra Veterinary Products Europe

Aged 50, 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 DVP EU in January 2008, following completion of the acquisition of VetXX. Prior to joining the Group, he worked within the animal healthcare sector for a number of companies including ICI, Wellcome and Alfa Laval Agri.

### **Michael Redmond†•** Non-Executive Chairman Chairman of the Nomination Committee

Aged 66, Michael joined the Group as a Non-Executive Director in April 2001, and was appointed Chairman in July 2002. He has extensive pharmaceutical industry experience having begun his career with Glaxo and through senior positions with Schering Plough Corporation. In 1991, he joined Fisons plc and in 1993 was appointed to the board as Managing Director of the Group's Pharmaceuticals Division. Michael left Fisons in 1995 following its takeover by RPR. In November 2009, Michael was appointed Chairman of Abcam PLC, an AIM listed company, where he had previously held the post of Deputy Chairman (appointed February 2009).

### **Malcolm Diamond MBE†•** Senior Independent Non-Executive Director Chairman of the Remuneration Committee

Aged 61, Malcolm joined the Board in August 2000. He was appointed a Non-Executive Director of Unicorn AIM VCT PLC in March 2010 on its merger with Unicorn ACT II Investment Fund ("VCT II"), where he had also held a Non-Executive position. In March 2009, Malcolm was appointed Executive Chairman of Trifast plc; he had previously held the position of Chief Executive at Trifast for 18 years until 2002. In addition, Malcolm is Chairman at CWO Limited and also advises a number of private businesses on their strategic planning, management development programmes and marketing initiatives.

### **Neil Warner BA, FCA, MCT†•** Non-Executive Director Chairman of the Audit Committee

Aged 57, Neil joined the Board in May 2003. He is Finance Director at Chloride Group PLC, a position he has held since 1997. Prior to this, he 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.

### **Bryan Morton BSc, MBA†•** Non-Executive Director

Aged 54, Bryan joined the Board in January 2010. Bryan has extensive experience in the pharmaceutical industry, largely with Merck & Co. Inc. and Bristol Myers Squibb where he has held positions of responsibility within marketing, sales, business development and general management. He was previously the CEO of Zeneus Pharma, which he founded in 2003 and which was subsequently sold in late 2005. Bryan is the President and Chief Executive Officer of EUSA Pharma, a specialist pharmaceutical company, which he founded in 2006. He is also a Non-Executive Director of the stem cell company ReNeuron, Chairman of the medical device business Aircraft Medical Ltd and sits on the Global Advisory Board at Pilgrim Software Inc, which is focused on the life sciences sector.

\* Member of the Audit Committee

† Member of the Remuneration Committee

• Member of the Nomination Committee

# Senior Management

38/39



1



2



3



4



5



6



7

- 1 Susan Longhofer
- 2 Barbara Johnson
- 3 Martin Riley
- 4 Mike Eldred
- 5 Mike Annice
- 6 Peter Graham
- 7 Zoe Goulding

## **Dr Susan Longhofer, DVM, MS, DipACVIM** Product Development and Regulatory Affairs Director

Aged 52, Susan joined the Group in June 2005. She has 21 years' industry experience in development and worldwide registration of animal health pharmaceuticals, having worked for multinational corporations including Virbac Corporation, Heska Corporation and Merck Research Laboratories. Her veterinary degree is from Texas A&M University and her MS is from the University of Wisconsin, Madison. She was awarded Diplomate status in the American College of Veterinary Internal Medicine in 1992. She has held a number of Academic and Professional Honours including membership on the Board of Directors of the American Heartworm Society and the Executive Council of the American Academy of Veterinary Pharmacology and Therapeutics.

## **Barbara Johnson, Chartered MCIPD** Group HR Director

Aged 49, Barbara joined the Group in April 2008. Prior to this she gained 19 years' human resources management experience within the food and drink industry covering manufacturing, retail, wholesale and distribution. Barbara has previously worked for Allied Domecq plc, Geest plc and Nicholl Food Packaging Limited. Prior to joining private industry, Barbara served for ten years in the British Army.

## **Martin Riley** Managing Director, National Veterinary Services

Aged 46, Martin was appointed Managing Director of NVS in 2005. A graduate of the Welsh Agricultural College in Aberystwyth, Martin has extensive knowledge of the animal healthcare and veterinary sectors. Before joining the Group, he previously held several senior positions over an 18 year period with the pharmaceutical manufacturer Merial Animal Health.

## **Mike Eldred, BA, MBA** President, US Operations, Dechra Veterinary Products

Aged 40, Mike was appointed in November 2004 to head up the Group's sales and marketing drive in the United States. He has over 12 years' professional experience in the US animal health sector, having held senior positions in business development, sales and operations at Virbac Corporation, and international marketing and operational positions at Fort Dodge Animal Health. Mike began his career with Sanofi Animal Health where he managed the pharmaceutical and biological production planning activities.

## **Mike Annice, BSc (Hons), MRPharms** Managing Director, Dales Pharmaceuticals

Aged 50, Mike graduated from The School of Pharmacy at Aston University in 1980. Prior to joining Dales in 1990 as Site Manager, he worked within the Hospital Pharmacy Service, Glaxo and SSS International (formerly Cupal Pharmaceuticals). He was appointed Technical Director at the time of the Group's MBO. Mike was appointed Managing Director at Dales in March 2002.

## **Dr Peter Graham BVMS, PhD, CertVR, DipECVCP, MRCVS** Managing Director of NationWide Laboratories and Cambridge Specialist Laboratory Services

Aged 42, Peter was appointed Managing Director of NationWide Laboratories and Cambridge Specialist Laboratory Services in 2003. Peter graduated from the University of Glasgow Vet School in 1989, where he remained as Small Animal House Physician and Research Scholar until 1995. During this period he was awarded the RCVS Certificate in Veterinary Radiology and a PhD on the Epidemiology and Management of Canine Diabetes Mellitus. He contributed to the initial commercialisation of biochemistry and endocrinology lab services at the University of Glasgow. Between 1995 and 2002, Peter was Assistant Professor at the world's largest specialist veterinary endocrinology laboratory in Michigan State University, USA, leading it as Section Chief from 2000. He was awarded Diplomate of the European College of Veterinary Clinical Pathologists in 2002.

## **Zoe Goulding, LLB (Hons)** Company Secretary and Solicitor

Aged 36, 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.



## Directors' Report: Corporate Governance

The Board recognises its accountability to Shareholders and is committed to maintaining high standards of corporate governance. In the opinion of the Directors, the Company has complied throughout the period under review with Section 1 of the 2008 FRC Combined Code on Corporate Governance (the "Code") except in respect of the composition of its Audit Committee. The Code requires audit committees to be composed of at least three, or in the case of smaller companies two, independent non-executive directors. Pursuant to the Code, a smaller company is one that is below the FTSE 350 throughout the year immediately prior to the reporting year. During the 2008/2009 reporting year the Company became a constituent member of the FTSE 350 (subsequently becoming a smaller company once again from March 2010) but its Audit Committee consisted of only two Non-Executive Directors. The Company entered the FTSE 350 in December 2008 and began the recruitment for a third Non-Executive Director resulting in the appointment of Bryan Morton in January 2010. It is the Company's intention to comply with this requirement going forward despite the fact that it is no longer a constituent member of the FTSE 350.

The Board has noted and is aware of the recent changes in corporate governance; in particular the UK Corporate Governance Code (which will apply to the 2010/2011 financial year). The Board will seek to comply with the new code where it determines that to do so would be beneficial to the Company and its stakeholders. In particular, the Board is aware of the new recommendation that all directors of FTSE 350 companies should be subject to annual re-election. As explained above, the Company is no longer a constituent member of the FTSE 350 and therefore does not need to comply with this recommendation. However, the Board intends to fully consider, during the forthcoming year, whether adoption of the recommendation would be beneficial to the long-term governance of the Group as a whole.

### Application of the Principles of the Combined Code

Section 1 of the Code sets out the main and supporting principles of good governance for companies. The following report details how the Company has applied the principles of Section 1 of the Code to its activities.

### Directors

#### The Board

The Board is collectively responsible for the success of the Company and provides entrepreneurial leadership within an embedded framework which allows for the ongoing assessment and management of risk. There is a formal schedule of matters reserved to the Board. These include the approval of corporate policies, strategy, plans and budgets, acquisitions and disposals of companies or businesses, major investment and financial decisions and major management or organisational changes. The Board intends to review the current schedule of matters during the 2010/2011 financial year and will report on any material changes in the 2011 Report and Accounts. As a matter of best practice the schedule will then be reviewed on an annual basis.

Prior to all board meetings an agenda and supporting documentation is circulated to all Directors. Each meeting agenda comprises reports from the following individuals:

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

In addition, twice a year the Board receives detailed health, safety and environmental reviews encompassing the UK, EU and US businesses plus activities of the Fleet Steering and Sustainability Committees. Three times a year the Board receives a full risk assessment review for discussion; this is following a detailed risk review by each of the business units. Other ad hoc material relating to specific projects, legal and regulatory matters are included as necessary. The reports ensure that the Board is informed and updated on all major items of strategic planning, business performance, personnel, investments and significant policy issues; thus allowing the Board to continuously monitor the progress of the business and providing transparency across all areas within the Group. In addition the senior management are invited to attend board meetings on a quarterly basis (and in the intervening period if required) enabling the Board to explore specific issues and developments in detail as necessary.

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

The Non-Executive Directors and the Chairman meet prior to each board meeting which allows them time to review and discuss any matters arising from the agenda without the Executive Directors being present.

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

The Board is scheduled to meet eleven times per annum with additional meetings called if necessary, including two meetings where the full year and half-year results are dealt with. No additional meetings were required during the 2009/2010 financial year.

Attendance at meetings during the year to 30 June 2010 was as follows:

Name	Board (11 Meetings)	Audit (3 Meetings)	Remuneration (4 Meetings)	Nomination (2 Meetings)
Michael Redmond	11	n/a	4	2
Malcolm Diamond	10	3	4	2
Bryan Morton	5/6*	1/2*	2/2*	1/1*
Neil Warner	8†	3	2†	2
Ian Page	11	n/a	n/a	n/a
Simon Evans	11	n/a	n/a	n/a
Ed Torr	11	n/a	n/a	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.

† Neil Warner has been unable to attend two board meetings and two Remuneration Committee meetings due to the unforeseen proposed takeover of Chloride PLC. Despite this he has made every effort to keep updated on the activities of the Company and the matters discussed at the meetings.

It is understood that there may be situations, either due to prior commitments or circumstances beyond control, that a Director is unable to attend a board or committee meeting. In this situation the board pack is still provided allowing the Director to raise any queries/discussion points either through the Chairman or Company Secretary, thus allowing their views to be considered at the meeting.

Post the board meetings the Company Secretary ensures that an accurate record of the meeting is made which is circulated to the Board as soon as possible after the meeting. Should Directors have any concerns which cannot be resolved about the running of the Company or a proposed action, they have the right to ensure this is recorded in the minutes. Further, on resignation, should a Non-Executive Director have any concerns, the Chairman would invite him to provide a written statement for circulation to the Board.

Led by the Senior Independent Director, the Non-Executive Directors meet without the Chairman present, at least annually, to appraise the Chairman's performance.

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

### Chairman and Chief Executive

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

The Chairman, at the time of his appointment, did meet and continues to meet the independence criteria set out in the Code. The Chairman is to retire by rotation at the forthcoming Annual General Meeting and the Nomination Committee (excluding the Chairman) has reviewed his appointment in detail. The Nomination Committee considered the Chairman to continue to lead the Board effectively, at all times maintaining his independence and providing invaluable contribution and insight to the Board gained from his extensive experience within the pharmaceutical sector. The Nomination Committee also reviewed the Chairman's current time commitments particularly in light of his appointment as Chairman of Abcam plc (previously holding the post of Deputy Chairman). After consideration of the enhanced role it was anticipated that the Chairman's availability for the Company would not be reduced and that he would continue to fulfil his role to the highest standards.

## Directors' Report: Corporate Governance

### Board Balance and Independence

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

As mentioned in the 2009 Annual Report Malcolm Diamond had served nine years as at August 2009. In line with the Code, the Nomination Committee carried out a rigorous review of his appointment for the 2009/2010 period. Following this review the Board determined that Malcolm Diamond remained independent notwithstanding that he had served on the Board for over nine years. The Board still considers that Malcolm Diamond performs his duties effectively, continuing to show integrity and high ethical standards whilst maintaining sound, independent judgement in respect of all decisions taken at Board and Committee level. However, taking into account the requirements of the Code, Malcolm Diamond has decided to retire from his position as Non-Executive Director at the board meeting to be held prior to the forthcoming Annual General Meeting on 5 November 2010. On Malcolm Diamond's retirement, the Board proposes to appoint Neil Warner as Senior Independent Director and he will be available to Shareholders if they have concerns which contact through the normal channels had failed to resolve or for which such contact is inappropriate.

The Nomination Committee recognises the importance of the refreshment of the Board and of ensuring that the board members provide the right mix of skill, expertise and experience to assist the Executive Directors in achieving the Group strategy. As reported in the 2009 Annual Report an independent recruitment consultant was retained to aid the Nomination Committee in the appointment of an additional Non-Executive Director. As a result, on 8 January 2010, Bryan Morton was appointed to the Board and as a member of the Remuneration, Audit and Nomination Committees. Bryan Morton has proved to be a valuable member of the Board and Committees, providing contribution and insight gained from his extensive commercial and strategic experience.

The Nomination Committee has recently retained the recruitment consultants again in order to assist in the appointment of a further Non-Executive Director and it is hoped that an appropriate and suitable appointment will be made before the end of the 2010 calendar year. An announcement to the London Stock Exchange will be made in due course.

Overall, the Board considers that all the Non-Executive Directors are independent of management and free of any business or other relationship which could materially interfere with or compromise the exercise of their independent judgement.

The details of the Board of Directors are shown on page 38 (which reflect a suitable breadth of skills, knowledge and experience).

### Conflicts of Interest

At the 2008 Annual General Meeting the Shareholders approved a resolution to amend the current Articles of Association so as to enable the Directors to authorise any actual or potential conflict of interest which could arise in line with the Companies Act 2006. There are safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict. Firstly, only independent directors (i.e. those who have no interest in the matter being considered) will be able to take relevant decisions, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will also be able to impose limits or conditions when giving authorisation if they think this appropriate. During the financial year under review no actual or potential conflicts have arisen.



## Nomination Committee

The Board has an established Nomination Committee to lead the process for board appointments and to make recommendations to the Board. The Nomination Committee comprised, during the year, Michael Redmond (Chairman), Malcolm Diamond, Bryan Morton, and Neil Warner. The Chairman will not chair the Committee meeting when it is dealing with the appointment of a successor to the Chairman. Details of the work carried out by the Nomination Committee during the financial year have already been detailed in this report.

The Nomination Committee normally meets once a year. However, an additional meeting has been held during the financial year in view of the appointment of Bryan Morton and the current recruitment of a further Non-Executive Director scheduled for before the end of the 2010 calendar year.

The terms of reference set out the Nomination Committee's role and the authority delegated to it by the Board. They include the following responsibilities:

- to oversee the plans for management succession;
- to recommend appointments to the Board;
- to evaluate the effectiveness of the Non-Executive Directors; and
- to consider the structure, size and composition of the Board generally.

The terms of reference are available on the Company website at [www.dechra.com](http://www.dechra.com).

Other significant commitments of the Chairman and the Non-Executive Directors were disclosed to the Board before appointment and the Board is notified of any subsequent changes. None of the Executive Directors hold a Non-Executive Directorship. The letters of appointment of the Non-Executive Directors will continue to be available for inspection at the Company's registered office. Both the letters of appointment of the Non-Executive Directors and the Service Contracts of the Executive Directors will also be on display at the forthcoming Annual General Meeting.

## Information and Professional Development

The Directors are supplied in a timely manner with all relevant documentation and financial information to assist them in the discharge of their duties. This includes information on the Company's operational and financial performance. At least one board meeting per year is held at one of the Group's operational sites to enable the Directors to update and maintain their knowledge and familiarity with the Group's operations. In May 2010, a board meeting was held at *Dales*, Skipton, where the Board had an opportunity to be shown around the manufacturing facility and meet with employees as well as management. The meeting was scheduled at *Dales* in order to provide an opportunity for the Board to see, in practice, the changes which have been made to the facility in readiness for FDA approval, a matter which has been a regular board agenda item for the past year.

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. The new Director is also offered the opportunity to visit the various business units in order to allow him the opportunity to meet with the executive team managing the business units and to be shown around the operations. On an ongoing basis all Directors are encouraged to keep up to date on all matters relevant to the Group and attend briefings and seminars as appropriate. The Company Secretary provides ongoing briefings where necessary for the Directors that cover a number of legal and regulatory changes and developments relevant to the Directors' areas of responsibility.

Each Director is entitled on request to receive information to enable him to make informed judgements and adequately discharge his duties. In addition, all Directors have access to the advice and services of the Company Secretary and senior managers generally, and may take independent professional advice at the Company's expense in connection with their duties. The Company Secretary is responsible to the Chairman for ensuring that all board and committee meetings are properly conducted and that Directors receive all appropriate information prior to meetings to enable them to make an effective contribution. Both the appointment and removal of the Company Secretary is a matter for the Board as a whole.

## Directors' Report: Corporate Governance

### Performance Evaluation

The Board has developed a process of reviewing its own effectiveness and the effectiveness of the Committees. This is based on a combination of written reviews by individual Directors, discussion with the Chairman and review by the Board as a whole. As part of this process the Board considers the performance of individual Directors. This process has been undertaken during the year. The Board recognises the current sentiment in relation to performance evaluation and the need for more detailed disclosure and the recommendations in the UK Corporate Governance Code for the FTSE 350 Companies to ensure that external board evaluation is carried out every three years. Although the Company is in the FTSE Small Cap, and therefore below the recommendation threshold, the Board intends to review its current evaluation process bearing the recommendations in mind. Any changes made will be disclosed along with any issues/recommendations resulting from the review.

### Re-election

On appointment, Directors are required to seek election at the first Annual General Meeting following appointment. One-third of the Board are required to retire from office by rotation at the Annual General Meeting subject to all Directors having submitted themselves for election every three years. At the forthcoming Annual General Meeting Bryan Morton, who was appointed to the Board on 8 January 2010, will offer himself for election; both Michael Redmond and Ed Torr will retire by rotation in accordance with the Articles of Association and will seek re-election. The Board has reviewed the performance of Michael Redmond and Ed Torr and strongly supports their re-election and recommends that the Shareholders vote in favour of these resolutions. Michael Redmond has held office for over nine years; however, the test of independence is not appropriate in relation to the Chairman post his appointment.

### Remuneration

Details of Directors' remuneration are set out in the Directors' Remuneration Report at pages 51 to 59. This report details the Company's compliance with the Code's requirements with regard to remuneration matters. The terms of reference of the Remuneration Committee are available on the Company website at [www.dechra.com](http://www.dechra.com).

### Accountability and Audit

#### Financial Reporting

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

The respective responsibilities of the Directors and the Auditors in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities and the Independent Auditors' Report on pages 69 and 70 to 71 respectively.

### Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business Review on pages 8 to 37. The principal risks that may affect the Group's future performance are set out on pages 36 to 37.

During the year being reported, trading has continued to be robust with an improvement in profitability and a reduction in net borrowings being achieved. As described in notes 20 and 21 of the Consolidated Financial Statements, the Group had the following bank facilities at 30 June 2010:

- a term loan of £22.5 million repayable in instalments of £2.5 million each 30 June and 31 December
- a revolving credit facility of £15 million committed until December 2012
- an overdraft facility of £10 million renewable on 30 September 2010

The Group also had cash balances of £31.5 million at 30 June 2010. The overdraft facility is expected to be renewed on the renewal date although it is not normally used for the Group's daily cash requirements

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

## Internal Control and Risk Management

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

The Group has a well-established, ongoing and embedded framework of internal financial and operational control for identifying, evaluating and managing the risks faced by the Group. Every four months the Board carries out a thorough review of relevant risk areas and systems of internal control. The review is structured by business area and key risk strategy and is based upon a summary of information prepared and reviewed by the business units' executive team on an ongoing basis. This framework has been in place throughout this year under review, and has continued up to the date of approval of the Annual Report. The current review was prepared to 30 June 2010. Further detail in respect of the risks and uncertainties faced by the Group and the mitigating action being taken can be found on pages 36 to 37.

The Board has reviewed the operation and effectiveness of the internal controls for the year ended 30 June 2010.

The Group's key systems of control include:

### ● Management Structure

The Group is organised into four operating segments within which there are a number of business units. Each business unit has its own managing director and executive team; there are clear reporting lines and delegated authorities in place. Each business unit has its own scheduled agenda of meetings throughout the year. In respect of the UK and EU business units the Chief Executive and Group Finance Director meet with each executive team circa ten times a year to discuss strategy, business operation and financial performance. In respect of Regulatory and DVP US the Chief Executive keeps informed by means of regular/weekly briefings with the managing directors plus face to face meetings four times a year. The executive management are responsible for the identification, evaluation and management of the significant internal and external risks applicable to their business areas. The top three business risks are reviewed on a monthly basis, with a full risk review taking place every four months, all of which is escalated to the Board.

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

### ● Management Accounting Systems

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

The finance department maintain a financial policies manual which covers central and divisional management. The manual is reviewed at least annually and is also updated whenever reporting standards, legislation or internal commercial reasons dictate. Any changes to the policies are communicated throughout the Group's finance department. The finance department also hold an annual internal conference at which a full technical update, tailored specifically to the Group's commercial needs, is presented by the Auditors.

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, 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. Full year forecasts are updated quarterly.



## Directors' Report: Corporate Governance

### ● Investment Approval

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

### ● Development Expenditure

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

### ● Whistle-blowing Policy

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

### ● Business Ethics Policy

A business ethics policy was introduced during the 2009/2010 financial year. This has been circulated group-wide and all relevant employees are asked to return signed confirmation to the Company Secretary that they agree to adhere to the policy. It is intended that employees will be requested to sign such confirmation on an annual basis. The Group is aware that the policy will require reviewing to ensure that it adheres to the Bribery Act 2010 and will also need to review its current procedures to ensure that they are deemed "adequate" in line with this Act and the guidance to be released by the Ministry of Justice in early 2011.

### Audit Committee and Auditors

Information relating to the Audit Committee is set out in the Audit Committee Report on pages 48 to 50. This details the Company's compliance with the Code's requirements in respect of audit matters. The terms of reference of the Audit Committee are available on the Company website at [www.dechra.com](http://www.dechra.com).

Responsibility for monitoring the Group's system of internal control rests with the Board. It is assisted by the Audit Committee, which reviews the half-year and annual reports provided to Shareholders, the audit process and the systems of internal control and risk management, the latter by way of consideration of the Board's updated progress report and action plan regarding internal controls.

Whilst the Board recognises this does not constitute an internal audit function, it believes that due to the size of the Group this review provides sufficient comfort as to the controls in place. The Audit Committee reviews the requirement for an internal audit function annually, this has been carried out during the financial year under review and a decision taken that an internal audit function is not currently required.

The Auditors are 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.

## Relations with Shareholders

### Dialogue with Institutional Shareholders

Relationships with Shareholders receive high priority and a rolling programme of meetings between Institutional Shareholders and Executive Directors are held throughout the year. These meetings are in addition to the annual and half-year results presentations and the Annual General Meeting and seek to foster a mutual understanding of the Company's and Shareholders' objectives. Such meetings are conducted so as to ensure protection of share price sensitive information that has not already been made generally available to the Company's Shareholders. Similar guidelines also apply to communications between the Company and parties such as financial analysts, brokers and the press. The Company also organises site visits on a periodic basis.

Feedback is collated by the Company's brokers after both the annual and half-year results and presentations. The feedback is then circulated to the Board for review and consideration; in addition, the Board is provided with a monthly market summary report which reports on share price movements and share register movements.

The annual and half-year results presentations are available to private investors via the Company's website. The Company views the website as an important investor relations tool, and has during the financial year undertaken a project to update the website making it clearer and easier to access information relating to the Company and its activities. The Company will endeavour to ensure that it is continuously updated in line with best practice.

### Constructive use of the Annual General Meeting

All members of the Board usually attend the Annual General Meeting. The Chairmen of the Audit Committee, Remuneration Committee and Nomination Committee will normally be available to answer Shareholders' questions at that meeting.

Notice of the meeting, together with the Annual Report and Accounts, is posted to Shareholders not less than 20 working days prior to the date of the Annual General Meeting. The information sent to Shareholders includes a summary of the business to be covered at the Annual General Meeting, where a separate resolution is prepared for each substantive matter. When a vote is taken on a show of hands, the level of proxies received for and against the resolution and any abstentions are disclosed at the meeting and will be made available as soon as practicable after the meeting on the Company website at [www.dechra.com](http://www.dechra.com). The notice of meeting and an announcement relating to the total number of shares in respect of which Shareholders are entitled to exercise voting rights are made available on the Company's website the day after the notice of meeting is posted to Shareholders. At the Annual General Meeting there is also an opportunity, following the formal business, for informal communications between investors and Directors.

## Directors' Report: Audit Committee Report

### Membership

The members of the Audit Committee ("the Committee") are currently:

Neil Warner (Chairman of the Committee)

Malcolm Diamond (Non-Executive Director)

Bryan Morton (Non-Executive Director, appointed 8 January 2010)

The members of the Committee are deemed by the Board to be independent; further explanation of the reasons for this can be found in the Corporate Governance section on pages 40 to 47. The Board also considers that Neil Warner has recent and relevant financial experience gained through his position as Finance Director of Chloride Group PLC, as required by the Combined Code on Corporate Governance (the "Code"). The Company Secretary acts as secretary to the Committee.

As described in the Corporate Governance section, the Nomination Committee is in the process of appointing a further independent Non-Executive Director. It is likely that on appointment to the Board he/she will also be appointed as a member of the Committee.

### Responsibilities

The main role and responsibilities of the Committee are set out in the written terms of reference which are available on the Company website at [www.dechra.com](http://www.dechra.com). The Committee's terms of reference are reviewed on an annual basis and during the 2009/2010 financial year this took place at the February meeting. Following this review the Committee agreed that no amendments were required to the terms of reference.

The main responsibilities of the Committee are:

- to monitor the integrity of the financial statements of the Company, reviewing the annual and half-year reports in detail to ensure they present a balanced assessment of the Company's position and prospects which is understandable to Shareholders and potential investors;
- to review the effectiveness of the Company's internal controls and risk management systems as described on pages 45 and 46 and, in conjunction with the Auditors, consider the accounting policies adopted by the Company;
- to review the Company's whistle-blowing arrangements;
- to oversee the relationship with the Auditors. The Committee makes recommendations to the Board on the appointment of the Auditors, approves their remuneration, monitors their independence and objectivity, and monitors the effectiveness of the audit process and sets the policy for non-audit work; and
- to make recommendations to the Board on the requirement for an internal audit function.

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

The Committee also monitors and reviews the effectiveness of the Group's internal control activities. Given the systems of internal control discussed on pages 45 and 46, and due to the present size of the Group, the Committee currently believes that an internal audit function is not currently required.

### Meetings

The Committee met three times during the year, timed to coincide with the financial reporting timetable of the Company. Members' attendance at the meetings held during the year can be found on page 41.



The schedule below sets out a number of the matters which were discussed (and where necessary approved) at the three meetings:

Meeting	Matters discussed/approved at the meeting
August 2009	<ul style="list-style-type: none"> <li>• Auditors' report on 2008/2009 financial results</li> <li>• Draft preliminary statement</li> <li>• Draft annual report</li> <li>• External audit effectiveness</li> <li>• Audit committee effectiveness review</li> <li>• Auditor independence confirmation</li> <li>• Level of non-audit fees</li> <li>• Going concern confirmation</li> <li>• Internal controls</li> <li>• Requirement for internal audit function</li> <li>• Proposed final dividend</li> <li>• Impact of IFRS 8</li> <li>• Auditor representation letter</li> </ul>
February 2010	<ul style="list-style-type: none"> <li>• Auditors' report on half-year results</li> <li>• Draft half-year report and announcement</li> <li>• Terms of reference</li> <li>• Whistle-blowing policy</li> <li>• Interim dividend</li> <li>• Going concern confirmation</li> <li>• Senior Accounting Officer requirement</li> <li>• Auditor representation letter</li> </ul>
July 2010 <sup>1</sup>	<ul style="list-style-type: none"> <li>• Audit strategy for the year ended 30 June 2010 (including timetable, scope and fees)</li> <li>• Audit Partner Rotation</li> <li>• Auditor independence</li> <li>• Group Capitalisation Policy Review</li> <li>• Company expectations of audit</li> </ul>

<sup>1</sup> Meeting postponed from May 2010

The Auditors attend meetings of the Committee other than when their appointment or performance is being reviewed. The Chief Executive, Chairman, Group Finance Director and other senior finance staff attend as and when appropriate. The Committee has discussions at least once a year with the Auditors without management being present.

### Auditor Independence

With respect to non-audit assignments undertaken by the Auditors, the Company has a policy to ensure that the provision of such services do not impair their independence or objectivity. When considering the use of Auditors to undertake non-audit services, the Chief Executive and Group Financial Director do at all times give consideration to the provisions of The FRC Guidance on Audit Committees with regard to the preservation of independence.

The policy in respect of non-audit fees was reviewed and amended during the year ended 30 June 2009, whereby it was agreed that the non-audit fee be capped at 50% of the audit fee. Prior approval of the Committee is required should non-audit fees exceed the cap and a detailed explanation of the reasons for exceeding the limit provided in this report. In all cases, other potential providers are adequately considered.

## Directors' Report: Audit Committee Report

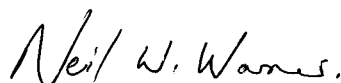
In respect of the year under review the audit fee has been approved at £262,756 (2009: £266,000) and non-audit fees amount to £146,000 (2009: £96,733), representing 56% of the audit fee (2009: 36%). During the current year, the Auditors have been commissioned to carry out a number of non-audit projects including tax advisory and compliance work, and verification of satisfaction of the performance conditions in relation to the Approved and Unapproved Company Share Option Schemes. The 50% non-audit fee cap was breached by reason of work in relation to a number of historical research and development claims; on the basis that KPMG Audit Plc ("KPMG") has completed the original tax computations it was deemed suitable for KPMG to carry out this work.

The Auditors annually confirm their policies on ensuring audit independence and provide the Committee with a report on their own audit and quality procedures. This report was reviewed during the Audit Strategy meeting held in July 2010. In line with the ethical standards of the Audit Practices Board ("APB") the Group Audit Engagement Director is rotated every five years. The current Group Audit Engagement Director was appointed during the 2005/2006 financial year and in accordance with the APB, is due to stand down prior to the 2010/2011 audit. The Committee has already commenced discussions with KPMG regarding the rotation so as to ensure an orderly handover and maintain the current high audit standard.

### Effectiveness Review

During the year, the Committee reviewed its own effectiveness through a process led by the Committee Chairman. The Committee considered that it acted transparently and given the number of committee and board meetings scheduled throughout the financial year, maintained a thorough understanding of the Group and its business. The Committee also considered it had the skills necessary to perform its responsibilities, particularly through Neil Warner's financial and audit experience by reason of his position as Financial Director of Chloride PLC. The results of the review were advised to the Board.

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



### Neil Warner

Chairman — Audit Committee

7 September 2010

# Directors' Report: Directors' Remuneration Report

50/51

The Remuneration Report is presented in accordance with the relevant provisions of the Combined Code on Corporate Governance (the "Code") and Schedule 8 to 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 58.

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 Remuneration Report will be submitted at the 2010 Annual General Meeting for the approval of the Shareholders.

## The Remuneration Committee

### Membership

The Committee consists exclusively of independent Non-Executive Directors and comprises:

Malcolm Diamond (Chairman)  
Bryan Morton (appointed 8 January 2010)  
Michael Redmond  
Neil Warner

As reported, Malcolm Diamond will be retiring as a Non-Executive Director of the Company; on his retirement Bryan Morton will be appointed chairman of the Committee.

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

### Responsibilities

The Committee has its own terms of reference, which are approved by the Board. These were reviewed during the year to ensure compliance with the Code. Copies can be obtained from the Company Secretary or via the Company website at [www.dechra.com](http://www.dechra.com). The Committee Chairman and the Company Secretary are available to Shareholders to discuss the remuneration policy.

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

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 (including pension rights) 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.



## Directors' Report: Directors' Remuneration Report

### Meetings

The Committee met four times during the year and members' attendance at the meetings can be found on page 41. In accordance with the Committee terms of reference any two members of the Committee form a quorum. The schedule below sets out a number of the matters which were discussed (and where necessary approved) at the four meetings:

Date	Subject Matter
July 2009	<ul style="list-style-type: none"> <li>● Review of incentive arrangements</li> </ul>
August 2009	<ul style="list-style-type: none"> <li>● Approval of Director bonuses</li> <li>● Approval of satisfaction of performance condition in respect of the LTIP</li> <li>● Review of Committee effectiveness</li> <li>● Discussion of the LTIP awards to be granted to Executives and Senior Management</li> </ul>
February 2010	<ul style="list-style-type: none"> <li>● Discussion regarding Directors' remuneration</li> <li>● Discussion of share option allocation</li> <li>● Approval of share option exercise and achievement of target</li> <li>● Review of terms of reference</li> </ul>
June 2010	<ul style="list-style-type: none"> <li>● Confirmation of Executive Directors' salary</li> <li>● Review and confirmation of executive bonus arrangements for 2010/2011</li> <li>● Discussion of the renewal of the SAYE, Approved and Unapproved Share Option Scheme Rules</li> </ul>

### Advisers

During the year the Committee received advice on the remuneration of Senior Executives from the Chief Executive; this was supplemented by advice given by KPMG and Hewitt New Bridge Street in relation to a number of potential incentive arrangements. Advice was also received from the Company Secretary and Hewitt New Bridge Street in relation to the operation of the Company's share-based incentive plans. Hewitt New Bridge Street has no other connection with the Company. KPMG are the Company's Auditors; the fee incurred in respect of their advice has been taken into account when calculating the total amount of non-audit fees incurred during the financial year.

### Effectiveness Review

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

## Remuneration Policy and Practice

### Non-Executive Directors

The Board aims to recruit and retain Non-Executive Directors of a high calibre with the requisite experience required to achieve success for the Company and its Shareholders.

The fees of the Chairman are determined by the Committee and the fees of the Non-Executive Directors are determined by the Board following a recommendation from both the Chief Executive and the Chairman. It should be noted that neither the Chairman nor the Non-Executive Directors take part in the determination of their own remuneration.

Non-Executive Directors are paid a basic fee with additional fees paid for the chairing of Committees. During the financial year under review the Non-Executive Directors agreed to waive an increase in their fees. In addition, the structure of the fees was reviewed and amended (as shown in the table below) but this did not change the overall fees paid to the Non-Executive Directors.

	New fee structure £'000	Original fee structure £'000
Office		
Chairman	80	80
Non-Executive Director	36	31
Senior Non-Executive additional fee	—	3
Remuneration Committee Chairmanship additional fee	3	5
Audit Committee Chairmanship additional fee	3	8

Taking into account current market sentiment in relation to Non-Executive fees increases and also the level of pay and employment conditions throughout the Group, it has been agreed to increase the fees by 3% for the 2010/2011 financial year.

The annual fee level for 2010/11 is therefore:

	2010/11 fee £'000
Office	
Chairman	82
Non-Executive Director	37
Remuneration Committee Chairmanship additional fee	3
Audit Committee Chairmanship additional fee	3

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

### Executive Directors

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

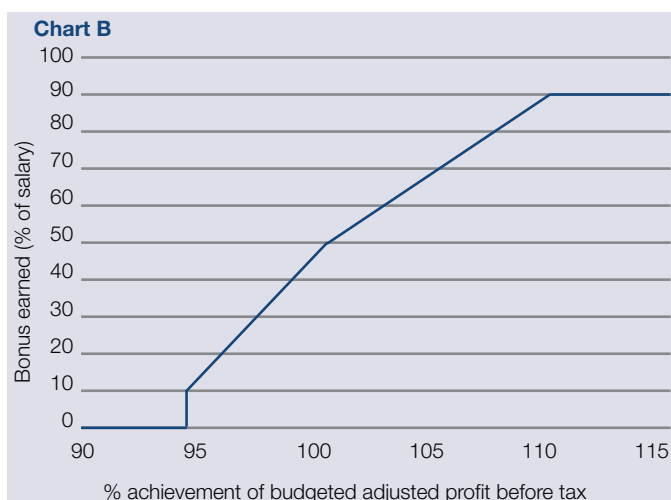
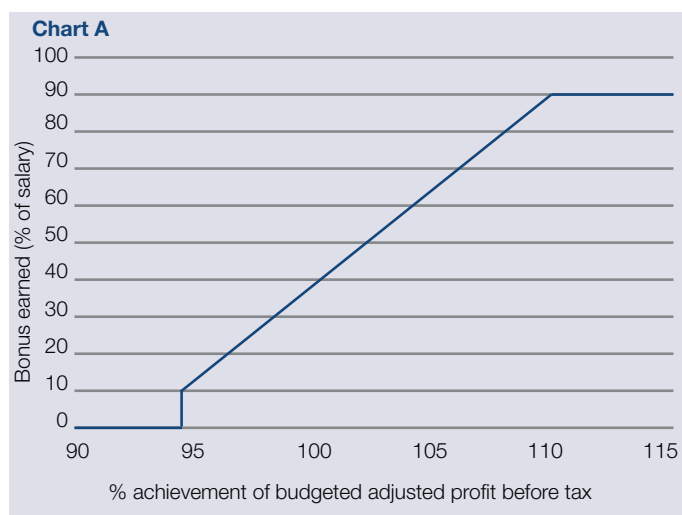
- attract, retain and incentivise Executives of the calibre required to ensure that the Group is managed successfully to the benefit of Shareholders;
- provide appropriate alignment between Dechra's strategic goals, Shareholder returns and Executive reward;
- have a competitive mix of base salary and short and long-term incentives with a significant proportion of the package determined by stretching targets linked to Dechra's performance; and
- are consistent with corporate governance best practice guidelines so long as the Committee believes that compliance with such guidelines is in the best interest of Shareholders.

The Committee has a policy of reviewing Executive remuneration every two years. The Committee therefore reviewed the Executive Directors' current benefits and salary over the course of a number of meetings held during Spring/Summer 2010. Although no overall independent advice was obtained during the course of the review the Committee were mindful of remuneration studies and surveys which had been carried out during 2009/2010 by various remuneration consultants and accountancy firms. It should be noted, however, that specific advice was taken in relation to the bonus scheme from Hewitt New Bridge Street.

Overall, the Committee concluded that the value of the Executive Directors' existing remuneration packages remained below median, however market sentiment remained conservative in respect of material increases to Executive Directors' remuneration and any pay increases should be reflective of those paid across the Group; it was therefore agreed that a 3% pay increase would be awarded for 2010/2011. When considering the bonus arrangements paid to the Executive Directors the Committee noted that the maximum potential of 100% of base salary was in line with median market practice for FTSE Small Cap companies. However, the payment of 37% of base salary for achieving budgeted adjusted profit before tax (out of a maximum 90% of salary) was low compared to Directors within the FTSE Small Cap in accordance with a number of remuneration surveys, particularly taking into account the challenging nature of the budget. The Committee therefore agreed to seek additional advice in respect of the current bonus scheme from Hewitt New Bridge Street. After reviewing this additional advice it was agreed that the outlying parameters of the bonus scheme would remain as per the previous year (i.e. payment of 10% of salary on achievement of 95% of budget and payment of 90% of salary on achievement of 110% of budget), however there would no longer be a straight line in between the two parameters; instead achievement of budget would trigger a payment equivalent to 50% of base salary (in line with median market practice). The table on the next page sets out the changes made following the review.

## Directors' Report: Directors' Remuneration Report

Policy	2009/2010	2010/2011
<b>Base Salary</b>		
The Committee always considers	Taking into account the then economic climate	Taking into account the current market sentiment
(i) remuneration packages payable to employees employed in comparable companies; and	and the pay increases across the Group, the Committee agreed that base salaries were to be increased by 2% with effect from 1 July 2009 to:	and the pay increases across the Group, the Committee has agreed that base salaries should be increased by 3% with effect from 1 July 2010 to:
(ii) pay increases within the Group more generally		
	Ian Page — £357,000	Ian Page — £367,710
	Simon Evans — £224,400	Simon Evans — £231,132
	Ed Torr — £214,200	Ed Torr — £220,626
<b>Pensions</b>		
The Company operates a Group Stakeholder personal pension scheme which has been effective since 1 July 2005	The Company will contribute 14% of salary on behalf of the Executive Directors	
<b>Benefits in Kind</b>		
Provided on a market competitive basis	The Company provides the use of a fully expensed car, medical cover and life assurance scheme	
<b>Annual Bonus</b>		
The Executive Bonus Scheme rewards Executive Directors for achieving operating efficiencies and profitable growth in the relevant year by reference to challenging but achievable operational targets determined at the beginning of the financial year	Annual cash bonus potential up to 100% of salary made up as follows: <ul style="list-style-type: none"><li>Up to 90% of salary could be earned based on the achievement of Group budget set at the beginning of the financial year (with payments as outlined in Chart A below)</li><li>Up to 10% of salary could be earned based on achievement of personal objectives. The personal objectives of the Chief Executive were set by the Chairman, and those of the other Executive Directors were set by the Chief Executive. This element of the bonus is payable at the sole discretion of the Remuneration Committee</li></ul>	After taking into account a challenging budget and the current market conditions, the Committee decided to make a slight change to the Executive Bonus Scheme for the 2010/2011 financial year, in order to allow 50% of salary to be paid on achievement of budget (as explained on page 53). The percentage of salary paid on achieving 95% and 110% of budget respectively remains the same as previous years. Therefore, as in previous years, up to 90% of salary can be earned based on achievement of Group budget set at the beginning of the financial year. This is outlined in Chart B below. As in previous years, up to 10% of salary can be earned based on achievement of personal objectives
	Actual performance equated to a bonus of 44% of base salary (including the achievement of personal objectives) resulting in a total payment to Executive Directors of £350,064, to be paid in September 2010	





## Long Term Incentive Arrangements and Share Schemes

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

Awards under the LTIP have been made since 2008. The Committee considers that the LTIP provides a clear link between the remuneration of the Executive Directors and the creation of value for Shareholders by rewarding the Executive Directors for the Company's performance in terms of relative Total Shareholder Return ("TSR").

The LTIP allows the Executive Directors and selected Senior Executives of the Company to receive a conditional award of performance shares worth up to 150% of base salary (200% of salary in exceptional circumstances). Options granted to the Executive Directors on 24 September 2009 were granted to a value equivalent to 100% of their base salary.

Vesting of performance shares will normally occur provided that:

- (a) the participant is still employed by the Group at the end of the three year vesting period; and
- (b) to the extent that the pre-set performance targets have been satisfied over the three year performance period which will run from the start of the financial year within which the award is granted. Performance targets for the grant during the financial year ended 30 June 2010 are:
  - (1) an 'underpin' condition based on the Company's adjusted diluted earnings per share performance — no awards will vest if the Company's adjusted diluted earnings per share has not grown by at least RPI +3% per annum over the performance period;
  - (2) the Company's TSR performance — assuming that the underpin is achieved, vesting of the awards will be determined by the Company's TSR performance compared to the constituents of the FTSE Small Cap sector at the start of the performance period. The TSR will be calculated by comparing average performance over three months prior to the start and end of the performance period. Vesting will be on the following basis:

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

### Executive Incentive Plan ("EIP")

Prior to the adoption of the LTIP in November 2008, the Company operated an Executive Incentive Plan. No further options can be granted under the EIP; however, a number of prior year grants have yet to be exercised (subject to the achievement of performance conditions and confirmation from the Committee that the underlying financial performance of the Company has been satisfactory during the relevant measurement period). Details of the options yet to be exercised pursuant to the EIP and the attaching performance conditions can be found on page 58 of this report.

### Company Share Option Scheme and Savings Related Share Option Scheme

The Company also operates an Approved Share Option Scheme, an Unapproved Share Option Scheme and a Savings Related Share Options Scheme ("SAYE"). Executive Directors are entitled to participate in the SAYE scheme but are not entitled to participate in the Approved Share Option Scheme or the Unapproved Share Option Scheme by reason of their participation in the LTIP and EIP.

Each of these share option schemes expires in Autumn 2010. The Committee has requested that the schemes be renewed and updated in order to take into account legislative changes and best practice. Further details of the changes to the three share option schemes are provided in the enclosed Circular to Shareholders for the 2010 Annual General Meeting. A resolution in respect of each of the three schemes will be put to the Shareholders at that meeting. Subject to Shareholder approval, initial awards under the schemes will be made during the 2010/2011 financial year.

## Directors' Report: Directors' Remuneration Report

### Total Shareholder Return Graphs

The graphs below show the TSR performance of the Company over the past five financial years compared with the TSR over the same period for the FTSE Small Cap Total Return Index and FTSE 250 Index. During the 2009/2010 financial year the Company moved from the FTSE 250 to become a constituent member of the FTSE Small Cap Index; for this reason it is considered that the TSR performance of both sectors be represented in this report.



### Directors' Shareholdings

The beneficial interests of the Directors in office and their families in the share capital of Dechra Pharmaceuticals PLC as at 30 June 2010 were as follows:

Shareholdings	Ordinary Shares No. 2010	Ordinary Shares No. 2009
Michael Redmond	56,475	56,475
Ian Page	707,731	679,856
Simon Evans	860,537	830,274
Ed Torr	401,489	390,793
Bryan Morton	—	n/a
Malcolm Diamond	10,007	10,007
Neil Warner	2,691	2,691

There have been no changes in the holdings of the Directors between 30 June 2010 and 7 September 2010.

### Share Ownership Guideline

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

Shareholdings	Ordinary Shares No.	Ordinary Shares £'000*	Salary £'000
Ian Page	707,731	2,725	357
Simon Evans	860,537	3,313	224
Ed Torr	401,489	1,546	214

\* Calculated using the share price as at 30 June 2010.

There are currently no formal share ownership guidelines for Non-Executive Directors.

### Contracts of Services

The Executive Directors entered into a new rolling service contract during 2008/2009. The service contracts contain details regarding remuneration, restrictions and disciplinary matters.

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

Name	Commencement date	Notice Period	
		Director	Company
Michael Redmond	25 April 2001	12 months	12 months
Ian Page	1 September 2008	6 months	12 months
Simon Evans	6 February 2009	6 months	12 months
Ed Torr	6 February 2009	6 months	12 months
Bryan Morton	8 January 2010	12 months	12 months
Malcolm Diamond	1 July 2008	12 months	12 months
Neil Warner	2 May 2003	12 months	12 months

There are no expiry dates applicable to either Executive or Non-Executive Directors' service contracts.

The Company may, in its absolute discretion at any time after written notice has been given by either party, lawfully terminate the service contract by paying to the Director an amount equal to his basic salary entitlement for the unexpired period of notice (subject to a deduction at source of income tax and National Insurance contributions). In the event that the service contract is terminated before the end of any financial year, the Director shall not be entitled to any bonus in respect of that financial year.

Non-Executive Directors have a service contract for an initial 12 month period which is thereafter terminated by either party giving 12 months' notice. Non-Executive Directors' compensation is confined to 12 months' remuneration.

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

Name	Salary	Bonus	Benefits
Michael Redmond	12 months	n/a	n/a
Ian Page	12 months	Nil	12 months
Simon Evans	12 months	Nil	12 months
Ed Torr	12 months	Nil	12 months
Bryan Morton	12 months	n/a	n/a
Malcolm Diamond	12 months	n/a	n/a
Neil Warner	12 months	n/a	n/a

Where applicable, payment of this compensation would be in full and final settlement of all claims other than in respect of share options or awards and pension arrangements. In an appropriate case the Directors would have regard to the departing Director's duty to mitigate loss, except in the event of dismissal following a change of control of the Company. Other than as described above, there are no express provisions within the Directors' service contracts for the payment of compensation or liquidated damages on termination of employment. No compensation payments were made to Executive or Non-Executive Directors during the year.



# Directors' Report: Directors' Remuneration Report

## Audited Information

The Auditors are required to report on the information contained in the remainder of this report.

## Summary of Remuneration

	Salaries & Fees £'000	Bonuses £'000	Other Benefits £'000	<b>Total 2010 £'000</b>	Total 2009 £'000
<b>Executive Directors</b>					
Ian Page (Chief Executive)	357	157	29	<b>543</b>	665
Simon Evans	224	99	26	<b>349</b>	425
Ed Torr	214	94	15	<b>323</b>	397
<b>Non-Executive Directors</b>					
Michael Redmond (Chairman)	80	—	—	<b>80</b>	80
Bryan Morton	17	—	—	<b>17</b>	—
Malcolm Diamond	39	—	—	<b>39</b>	39
Neil Warner	39	—	—	<b>39</b>	39
	970	350	70	<b>1,390</b>	1,645

Executive bonuses for the year ended 30 June 2010 (as reflected in the table above) were determined as follows:

- Profit performance — 10% of salary payable upon the achievement of 95% of Group profit target rising to 90% of salary payable upon the achievement of 110% of Group profit target. Actual performance reflected 99.4% of the profit target resulting in a payment worth 34% 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 payments worth 10% of salary.

## Executive Incentive Plan

Awards made under the Executive Incentive Plan are as follows:

	Award date	Number of shares at 30 June 2009	Granted during the year	Exercised during the year	Number of shares at 30 June 2010	Performance period	Share price at date of award pence	Share price at date of exercise pence
Ian Page	2006	47,412	—	(47,412)	—	2006–2009	250.75	435.86
	2008	37,975	—	—	<b>37,975</b>	2007–2010	386	—
		85,387	—	(47,412)	<b>37,975</b>			
Simon Evans	2006	30,263	—	(30,263)	—	2006–2009	250.75	435.86
	2008	22,152	—	—	<b>22,152</b>	2007–2010	386	—
		52,415	—	(30,263)	<b>22,152</b>			
Ed Torr	2006	28,245	—	(28,245)	—	2006–2009	250.75	435.86
	2008	20,253	—	—	<b>20,253</b>	2007–2010	386	—
		48,498	—	(28,245)	<b>20,253</b>			

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

During the financial year awards granted in 2006 became exercisable. Independent verification by Hewitt New Bridge Street showed that the Company's TSR performance for the three year period to 30 June 2009 was in the top quartile of the FTSE Small Cap Total Return Index. The Committee also determined that the underlying financial performance of the Company over the performance period had been satisfactory. The full award was therefore exercisable.

Independent verification has also recently been sought from Hewitt New Bridge Street in respect of the satisfaction of the performance targets for awards which vested as at 30 June 2010. It has been confirmed to the Committee that the Company's TSR performance for the three year period to 30 June 2010 was again in the top quartile of the FTSE Small Cap Total Return Index. Subject to the Committee confirming that the underlying financial performance of the Company has been satisfactory throughout the performance period, the awards will become capable of exercise.

## Long Term Incentive Plan

Awards made under the Long Term Incentive Plan are as follows

	Award date	Number of shares at 30 June 2009	Granted during the year	Exercised during the year	Number of shares at 30 June 2010	Performance period	Share price at date of award pence
Ian Page	19 Nov 2008	92,593	—	—	92,593	2008–2011	391.75
	24 Sept 2009	—	86,861	—	86,861	2009–2012	404.10
		92,593	86,861	—	179,454		
Simon Evans	19 Nov 2008	58,201	—	—	58,201	2008–2011	391.75
	24 Sept 2009	—	54,599	—	54,599	2009–2012	404.10
		58,201	54,599	—	112,800		
Ed Torr	19 Nov 2008	55,556	—	—	55,556	2008–2011	391.75
	24 Sept 2009	—	52,117	—	52,117	2009–2012	404.10
		55,556	52,117	—	107,673		

The performance conditions attaching to the Long Term Incentive Plan are explained on page 55.

The aggregate gain made by the Executive Directors on share options exercised during 2010 was £461,663 (2009: £330,979).

## SAYE Scheme

Directors' entitlements under the SAYE Scheme are as follows:

	Award date	Market price at date of grant pence	Exercise Price	Exercise dates	At 30 June 2009 number	Exercised number	Granted number	Lapsed number	At 30 June 2010 number
Ian Page	13 October 2008	387	343	Dec 2013	4,883	—	—	—	4,883
Simon Evans	13 October 2008	387	343	Dec 2013	4,883	—	—	—	4,883
Ed Torr	13 October 2008	387	343	Dec 2013	1,119	—	—	—	1,119
	12 October 2009	445	332	Dec 2014	—	—	1,640	—	1,640
					10,885	—	1,640	—	12,525

## Share Price

The middle market price for the Company's shares on 30 June 2010 was 385.00p and the range of prices during the year was 375.00p to 505.00p.

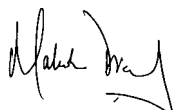
## Pension Entitlement

All Executive Directors were members of the Dechra Pharmaceuticals PLC Group Stakeholder personal pension scheme throughout the year.

Contributions made by Dechra Pharmaceuticals PLC on behalf of the Executive Directors during the year are based on a percentage of pensionable salary and were paid as follows:

	Age	Contributions 2010 £'000	Contributions 2009 £'000
Ian Page	49	50	49
Simon Evans	46	31	31
Ed Torr	50	30	29
		111	109

By order of the Board



**Malcolm Diamond**

Chairman — Remuneration Committee

7 September 2010

## Directors' Report: Social, Ethical and Environmental Responsibilities

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

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

As mentioned in the 2009 Annual Report the Company was in the process of establishing an Environmental Committee. At the inaugural meeting the members agreed to widen the remit of the committee to deal with matters beyond the environment so as to encompass all elements of CSR. The committee was subsequently renamed the Sustainability Committee (the "Committee").

The Committee is chaired by Ed Torr, the nominated Director responsible for environmental policy; its members are representatives from each of the business units and the Company Secretary is secretary to the Committee. The Committee has met twice this year, and its terms of reference are available on the Company website [www.dechra.com](http://www.dechra.com).

The Committee primarily focused on establishing a social, ethical and environmental policy and this was approved by the Board during the financial year. The following report details how we have applied the main principles of this policy. A full copy of the policy is available from the Company Secretary and 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 in previous years Dechra has maintained its investment in the Corporate Membership Scheme for the Staffordshire Wildlife Trust (the "Trust") throughout the financial year. The continued support provided by the Company has assisted the Trust in a number of local community programmes. During the year under review head office employees and representatives from NVS assisted the local community in a litter pick at Parrot's Drumble, an area of ancient woodland situated adjacent to the NVS warehouse in Talke Pits.



Dechra and NVS employees assisted the local community in a litter pick

*"Dechra Pharmaceuticals has continued to increase its support of Staffordshire Wildlife Trust and this has helped us to improve the quality of habitat at local nature reserves such as Parrot's Drumble. The work we do on nature reserves not only helps protect wildlife, but also supports the local community by improving their environment and helping support their efforts to conserve Staffordshire's wild places for future generations"*

**Yvonne Stevens — Staffordshire Wildlife Trust**



The business units also provide support to community based charities and projects in their respective areas as well as to animal related charities further afield. Below is a selection of what has taken place during the 2009/2010 financial year:

### European Pharmaceuticals

Employees at *Dales* have organised a number of charitable events supporting both local and national charities. In October 2009 a dress down day was organised along with a Halloween party, both in aid of Jeans for Genes, a national children's charity which raises money for the care of children and families who are affected by genetic disorders. The two events raised a total of £675. In June 2010, four employees took part in the 10 km run at Harewood House, Leeds. The participating employees raised £393; this was increased to £500 by a company contribution from *Dales*. The money raised was donated to Yorkshire Air Ambulance, a charity chosen by the *Dales* employees as their nominated charity for 2010.



*Dales* employees Richard Burton, Mike Annice, Emma Todd and Kevin Myers after completing the 10 km run at Harewood House, Leeds

*"DVP UK was one of the very first to agree to support and sponsor the Horsepower CPD bike ride round the UK Veterinary Schools. This charity initiative was set up to provide financial stability for a small disabled riding centre for orphans and abandoned children in Mali. DVP UK played a major role in both the preparation and the events themselves. Apart from the direct sponsorship DVP UK confirmed their commitment to the project and to the profession as a whole by having a stand at each of the seven venues"*

**Professor Derek C Knottenbelt OBE, BVM&S, DipECEIM, MRCVS, RCVS & European Recognised Specialist in Equine Internal Medicine — University of Liverpool**

DVP UK donated £2,000 towards the British Equine Veterinary Association's CPD roadshow which took place in July 2010. The roadshow was organised by ten equine veterinarians who rode their motorbikes between seven British veterinary schools within seven days delivering an intensive CPD programme at each veterinary school en route. The roadshow started in Liverpool and finished in Glasgow, all money raised being donated to the Society for the Protection of Animals Abroad ("SPANNA") linked disabled riding school in Bamako, Mali. SPANNA is a UK based animal welfare charity focused on improving the life of working horses and donkeys in Saharan Africa.

DVP UK also donated over £14,000 worth of short dated, obsolete medical supplies to the Worldwide Veterinary Service ("WVS"), a UK registered charity committed to improving the treatment and welfare of all animal species throughout the world. WVS provides sustainable veterinary resources in the form of volunteer veterinary teams, drugs, equipment and advice to assist animal welfare charities and non-profit organisations around the world.

As reported in the 2009 Annual Report DVP UK sponsors a charity called Help the Street Animals of Morocco ("HSAM") which it has been involved with since 2006. HSAM is a UK based charity which aims to improve the welfare of street animals in Morocco and also to reduce the feral population. During the 2009/2010 financial year HSAM carried out its fourth neutering and treatment trip to Morocco. In order to assist with their work and treatment whilst in Morocco DVP UK provided supplies of *Cleanaural*, *Canaural*, *Sedator* and *Atipam*.

During the year, DVP France sponsored two veterinary students from the Toulouse Vet School, helping them raise the funds to participate in the 4L Trophy, a 600 km car rally from Bordeaux to Morocco. The 4L trophy was established in 1997, and its objective is to provide humanitarian aid in the form of the provision of school supplies to 3,000 Moroccan children. The 4L Trophy also has a partnership with CO<sub>2</sub> Solidarity which aims to make up for the CO<sub>2</sub> emissions by funding a programme for environmental protection in order to improve the living conditions of Moroccan people.

## Directors' Report: Social, Ethical and Environmental Responsibilities

Each year DVP EU nominates a Danish charity to which they donate DKK2,500. For the year under review DVP EU chose to donate the money to the Foundation for Families with Children Suffering from Cancer. Furthermore, as reported in the previous Annual Report, DVP EU has continued its sponsorship of three children through SOS Children's Villages. The three children sponsored live in Kenya, India and the Philippines. DVP EU donates DKK150 a month to the charity for the sole purpose of providing care, food and schooling for the children.

### Services

NWL has, for a number of years, forged links with local schools by offering a number of work experience placements to students. During the financial year the Laboratories have offered work experience to fourteen children from local schools and six veterinary students from Liverpool Vet School. NWL feels that by offering such placements to pupils it provides the opportunity for students to understand and appreciate working life whilst allowing the schools to strengthen ties with local businesses.

NVS has donated medical supplies to a number of medical charities, including:

- PhaNgan Animal Care Thailand, a nursing clinic providing nursing and veterinary care for the Island's stray and unwanted animals; and
- Skiathos Dog Shelter, which aims to help street dogs on the Greek Island of Skiathos through care and shelter.

NVS also distributes, free of charge, dog and cat food to a number of charities each year. During the financial year approximately 38 tonnes of dog and cat food has been supplied to charities free of charge. A number of local dog and cat charities are identified by NVS each year for inclusion in the distribution, these are generally charities involved directly with the care of animals. It is ensured that such stock is not provided to charities where the damaged product would be sold on to third parties.

The Committee has reviewed the way in which donations (either in the form of money or stock) are made by the business units to charities and is in the process of creating a policy whereby employees' views are taken into account when deciding which charities are chosen. Subject to receiving board approval, it is intended that the policy be rolled out across the Group and further detail will be provided in the 2010/2011 Annual Report.

### Health and Safety Policy

The Group attaches great importance to the health and safety of its employees and the public. The management are responsible and committed to the maintenance, monitoring and promotion of a policy of health and safety at work to ensure the care and well-being of its employees and on-site visitors. All of its UK sites are registered with the British Safety Council.

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

The Group commenced reporting Lost Time Accident Frequency Rates ("LTAFR") as a non-financial key performance indicator during the 2008/2009 reporting year. The LTAFR is a calculation of all injuries that would be statutorily reportable under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations ("RIDDOR"), normalised per 100,000 hours worked. This measure provides information to help monitor and control accidents and injuries to the workforce and is widely used as a key performance indicator throughout industry. Over the course of the last twelve months the Group has managed to reduce the number of accidents from 16 to 14 and it is hoped to reduce this further during the 2010/2011 financial year. More detail in relation to this and other non-financial key performance indicators can be found on pages 30 to 31.

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

The transport risk committee assesses risks relating to the vehicle fleet and establishes control procedures, which include a regular licence check of all individuals who are able to drive company vehicles, an investigation into all accidents and a disciplinary procedure for speeding offences. During 2010 this committee introduced an online driver assessment for its entire company car and commercial vehicle drivers; the results of the assessment have enabled the Company to identify drivers at risk and to provide further training to those drivers. The online driver assessment is rolled out to all new company car and commercial vehicle drivers as part of their induction. The transport risk committee is currently reviewing the company car policy with the aim of reducing its impact on the environment. This committee meets four times a year and issues raised by this committee are reviewed by the Board as part of the bi-annual health and safety review.

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

## Employees

We recognise that the success of the Group is dependent on our ability to attract, develop, motivate and retain skilled employees. The Group commenced reporting labour turnover as a non-financial KPI during 2008/2009 reporting year, and this is measured using the standard formula:

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

The Group has established a target of no more than 15% moving annual turnover; during the 2009/2010 financial year we achieved 15.88% (2009: 19.81%). A number of projects have been carried out during the year which has contributed to this reduction.

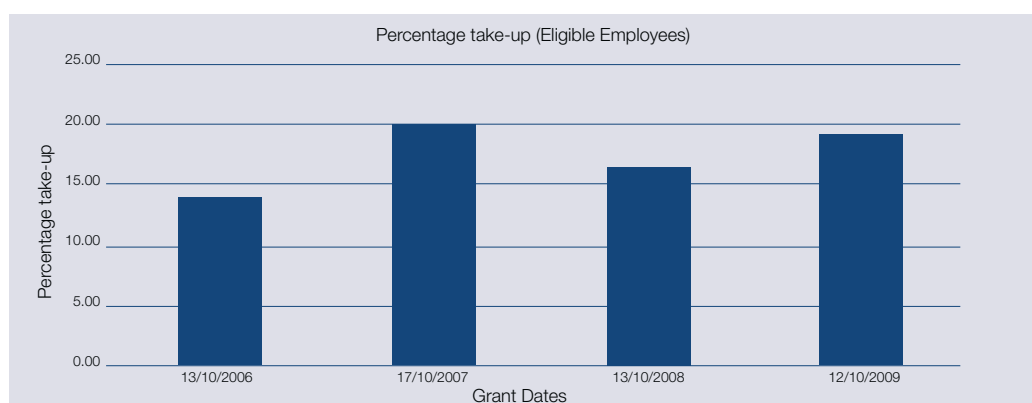
In September 2007 we provided the outcome of our benefits review to all of our UK based employees, which recommended improvements on our standard benefits offering and more closely aligned us with our employees across Europe. These improvements were implemented in January 2010, enabling standardisation and updating of our employee contracts in line with current legislation and practice. The improvement of our core benefits places us in a favourable market position and has resulted in a higher retention rate with less than one in ten leavers citing 'better pay and benefits' as their reason for leaving. We have continued to improve the people management skills of our line managers and have improved our employee involvement through the introduction of a Staff Information Consultation Committee at our NVS business adding to our existing works council elsewhere in the Group.

*Dales* is registered with 'Investors in People' and takes on a number of apprentices each year via the Modern Apprenticeship Scheme. Such employees are assisted in achieving National Vocational Qualifications ("NVQ") as part of their apprenticeship, usually work-based but also involving literacy and numeracy modules. During the year two apprentices have completed an NVQ in Management. Two further apprentices have been employed and are currently studying for the NVQ Level 2 Team Leading. In addition one employee has successfully completed both HNC and HND since 2007, gaining an HND in Quality and Project Management and Business Operation during the current financial year.

At NVS, 11 employees have completed Level 2 of Institute of Leadership and Management ("ILM") award during the 2009/2010 financial year, four employees are near completion of ILM Level 3 award and 28 employees are studying for NVQ Level 2 in Warehousing and Distribution.

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

The Group has encouraged employees to share in the growth of the Company through eligibility to participate in the SAYE Scheme. The SAYE Scheme is offered to UK employees only, with 19.33% of the UK workforce participating in the 2009 grant. The SAYE Scheme has been established for ten years and has a consistently high take-up rate compared to our sector. The graph below shows the percentage of employees who have taken up the SAYE Scheme over the last four years.



## Directors' Report: Social, Ethical and Environmental Responsibilities

### Business Ethics

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

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

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

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

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

### Environmental Policy

The Group recognises the importance of good environmental controls. It is the Group's policy to comply with environmental legislation currently in place, adopt responsible environmental practices and give consideration to minimising the impact of its operations on the environment. During 2010 the Committee confirmed the Group KPIs as energy consumption, fuel, travel and waste. The Committee members are tasked with collating data relating to the KPIs with the objective of reporting on these in future Report and Accounts. It is proposed to collate the data for internal purposes initially in order to gain a better understanding of the KPIs which will enable relevant targets to be set and reported on in the future.

During 2010 the Company has made an information disclosure under the CRC Energy Efficiency Scheme (previously known as the Carbon Reduction Commitment), a new mandatory scheme that aims to improve energy efficiency and reduce the amount of carbon dioxide (CO<sub>2</sub>) emitted in the UK. The Company was required to make an information disclosure as it consumed less than 6,000 MWh of electricity through all of its half hourly meters. The Company's half hourly meters will be monitored during 2010 and the results will be submitted to the Committee for its review.

NVS fleet policy ensures that CO<sub>2</sub> emissions are taken into consideration when procuring new delivery vehicles in order to ensure that low emission vehicles are sourced. Generally, delivery vehicles are replaced every three years via leasing agreements and alternative fuel vehicles are always considered on the replacement anniversary; in the past year LPG and electric vehicles have been considered. During 2008/2009 NVS procured a number of new delivery vehicles which have been fitted with speed limiters which will assist in reducing the amount of fuel consumed by the fleet and should also assist in reducing carbon emissions. The average miles per gallon in respect of the HGV fleet as at the end of June 2010 was 9.32 compared with 9.27 for the end of June 2009. In respect of the Transit fleet, average miles per gallon at the end of June 2010 was 32.07 compared with 32.6 for the end of June 2009.

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. The HGV fleet complied with this regulation prior to the mandatory date of 1 October 2009 resulting in each vehicle qualifying for a life-long reduced pollution certificate. This has resulted in a vehicle excise duty cost saving of approximately £500 per vehicle for this financial year.



During the financial year under review, video-conference facilities have been installed in *NVS*, Denmark and *Dales* with a satellite function at Shrewsbury. Video-conference facilities will be provided by a third party with respect to the US operation. Whilst the Committee appreciates that face to face meetings are beneficial it is hoped that the use of the video-conference facilities can reduce the number of flights. The Committee will be monitoring the use of the conference facilities during the forthcoming financial year with a view to reporting the reduction in the number of flights and car journeys.

The Group is a registered member of a compliance scheme in respect of the Waste Packaging Obligations Regulations. In addition, *NVS* operates a recycling programme which ensures that all trunking depots (see page 27) return their general waste to the main depot at Stoke-on-Trent. The general waste is then sorted for collection by third party waste management companies. During the 2009/2010 financial year approximately 280.3 tonnes of cardboard were recycled, as were 16.5 tonnes of plastic, 12.0 tonnes of paper and 0.5 tonnes of aluminium cans.

*Dales* also actively monitors its recycling rates and during the 2009/2010 financial year recycled approximately 10.4 tonnes of glass (2009: 13 tonnes), 28.6 tonnes of cardboard (2009: 42.0 tonnes) and 15.6 tonnes of plastic (2009: 7.0 tonnes). *Dales* continues to comply with, and exceed, effluent discharge standards into local water supplies, which is regularly monitored by Yorkshire Water Authority. Standard operating procedures are in place to ensure that all contaminated waste is disposed of under strict controls. Furthermore, all exhaust air is fully filtered from the manufacturing unit before discharge.

DVP EU is legally obliged to submit an annual report to the Danish Ministry of Environment in respect of its environmental impact. DVP EU therefore monitors a number of impacts including:

- Annual energy consumption: In 2009 energy consumption totalled 1,207 MWh (compared to 1,471 MWh in 2008). The decrease is primarily due to a decrease in overall energy consumption processes in manufacturing.
- Water: In 2009 water usage totalled 2,607 m<sup>3</sup> (compared to 2,584 m<sup>3</sup> in 2008). Although there has been a slight increase in usage compared to the previous year, over a five year period the usage has remained relatively stable.
- Waste: During 2009 a total of 9.0 tonnes of plastic and metal was recycled (compared to 11.1 tonnes during 2009) and 15.5 tonnes of paper and cardboard recycled (compared to 13.7 tonnes in 2008).

During 2008/2009 *Dales* has implemented and embedded the lean manufacturing strategy into its operations, thereby assisting the business in achieving a decrease in the time between placement of the customer order and end product shipment. The implementation of the lean manufacturing strategy into the business has provided concrete results to date; specifically the time taken for a product to travel through the manufacturing cycle (from raw materials to stores as a finished product) has reduced from an average of 20 days to 19 days. *Dales* continues to work towards achievement of its ISO 140001 status.

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

## Directors' Report: Other Disclosures

The Directors present their report and audited financial statements for the year ended 30 June 2010.

### Principal Activities and Business Review

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

Pharmaceuticals comprises three segments:

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

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

The Chairman's Statement and the Directors' Business Review can be found on pages 6 to 37 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 2010 are shown in the Consolidated Income Statement on page 72 and Consolidated Statement of Financial Position on page 74. The Directors recommend the payment of a final dividend of 7.20p per share which, if approved by Shareholders, will be paid on 10 December 2010 to Shareholders registered at 12 November 2010. The date the shares will become ex-dividend is 10 November 2010. An interim dividend of 3.30p per share was paid on 1 April 2010, making a total dividend for the year of 10.50p (2009: 9.10p). The total dividend payment is £6,953,000 (2009: £5,965,000).

### Research and Development

The Group has a structured development programme with the aim of identifying and bringing to market new pharmaceutical products. Investment in development is seen as key to further strengthen the Group's competitive position. Further information in relation to product development can be found on pages 14 to 19. The expense on this activity for the year ended 30 June 2010 was £4,666,000 (2009: £3,443,000) and a further £955,000 (2009: £785,000) 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 2010, the Group had an average of 71 days (2009: 65 days) purchases outstanding in creditors. The Company has an average of nil days (2009: nil days) purchases outstanding in creditors.

### Acquisitions

There have been no acquisitions during the year under review.

### Share Capital

The authorised and issued share capital of the Company for the year is set out in note 22 to the Accounts on page 108. As at the end of the financial year, 66,090,075 fully paid ordinary shares were in issue which included 508,151 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 6 November 2009, the Company was authorised to purchase up to 6,558,192 of its ordinary shares, representing 10% of the issued share capital of the Company as at 30 June 2009. 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 2009 Annual General Meeting and resolutions to renew these authorities will be proposed at the 2010 Annual General Meeting.

### Substantial Interests in Voting Rights

In accordance with the Disclosure Rules and Transparency Rules of the Financial Services Authority, as at 24 August 2010 the Company had been notified of the following interests exceeding the 3% notification threshold.

	Aggregate Voting Rights	Percentage
Schroder Investment Management	15,028,585	22.74
Artemis Investment Management	4,723,915	7.15
Legal & General Investment Management	3,656,272	5.53
Aberdeen Asset Management	3,231,893	4.89
Rathbone Unit Trust Management	2,583,339	3.91
Threadneedle Investments	2,148,110	3.25
BlackRock Investment Management	2,079,732	3.15
Invesco Perpetual	2,062,865	3.12

As at 7 September 2010 the Company had not been notified of any further changes in holdings.

### Change of Control/Significant Agreements

As detailed in the Going Concern Statement on page 44, the Group has bank facilities with the Lloyds Banking Group (the "Bank"). Under the terms of these facilities the Bank can give notice to the Company to repay all amounts outstanding under the facilities and cancel the commitments where there is a change of control of the Company.

No other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business as a whole. The Directors consider that there are no contractual or other arrangements, such as those with major suppliers, which are likely to influence, directly or indirectly, the performance of the business and its value.

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.

### Directors

The constitution of the Board and its Committees, together with biographical notes on the Directors, is shown on page 38. Details of Directors' attendance at board and committee meetings and a statement on board evaluation is set out in the Corporate Governance Report on pages 40 to 47.

Bryan Morton was appointed to the Board as a Non-Executive Director on 8 January 2010; under the Company's Articles of Association he will offer himself for election as a Director at the forthcoming Annual General Meeting.

As at August 2010 Malcolm Diamond has served ten years as a Non-Executive Director, it is intended that Malcolm Diamond will retire from the Board following the conclusion of the board meeting to be held prior to the Annual General Meeting. During his ten years as a serving Non-Executive Director Malcolm Diamond has provided invaluable support and guidance to both the Company and the Board, maintained high ethical standards and always acted with integrity and professionalism. The Board wishes to thank Malcolm Diamond for his contribution and wish him well for the future.

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

## Directors' Report: Other Disclosures

The interests of the Directors in the share capital of the Company are shown in the Remuneration Report on pages 51 to 59. 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 on doing so may exercise all the powers of the Company subject to the provision of relevant legislation and the Company's constitutional documentation. The powers of the Directors set out in the Articles of Association include those in relation to the issue and buy-back of shares.

### Directors' and Officers' Liability

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

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

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

The statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements can be found on page 69.

### Charitable Contributions

Charitable donations made during the year amounted to £6,695 (2009: £2,291). Further details of donations made by the Group are given on pages 60 to 65.

### Political Donations and Expenditure

No political donations were made during the year ended 30 June 2010. 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.

### Auditors

A resolution to reappoint KPMG Audit Plc as auditors of the Company and to authorise the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

### Audit Information

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

### Annual General Meeting

The 2010 Annual General Meeting of the Company will be held at 3.00 pm on 5 November 2010 at Investec Bank plc, 2 Gresham Street, London, EC2V 7QP. The notice of meeting, which includes special business to be transacted at the Annual General Meeting, is included within the Circular accompanying this Annual Report, together with an explanation of the resolutions to be considered at the meeting.

By order of the Board



**Zoe Goulding**

Company Secretary  
7 September 2010



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

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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 International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- 2 The management report, which comprises the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board and signed on its behalf by:



**Ian Page**

Chief Executive

7 September 2010



**Simon Evans**

Group Finance Director

7 September 2010

## Independent Auditors' Report to the Members of Dechra Pharmaceuticals PLC

We have audited the financial statements of Dechra Pharmaceuticals PLC for the year ended 30 June 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Shareholders' Equity, the Consolidated Statement of Cash Flows, the Parent Company Balance Sheet, the Parent Company Reconciliation of Movements in Shareholders' Funds and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 69, 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/UKP](http://www.frc.org.uk/apb/scope/UKP).

### 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 2010 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 44, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 40 to 47 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

**SJ Purkess (Senior Statutory Auditor)**

For and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH  
7 September 2010

# Consolidated Income Statement

For the year ended 30 June 2010

		2010 Amortisation of acquired intangibles and exceptional items			2009 Amortisation of acquired intangibles and exceptional items		
	Note	Adjusted £'000	(note 5) £'000	Total £'000	Adjusted £'000	(note 5) £'000	Total £'000
<b>Revenue</b>	2	<b>369,369</b>	—	<b>369,369</b>	349,964	—	349,964
Cost of sales		(288,744)	—	(288,744)	(276,292)	—	(276,292)
<b>Gross profit</b>		<b>80,625</b>	—	<b>80,625</b>	73,672	—	73,672
Distribution costs		(16,242)	(300)	(16,542)	(15,981)	—	(15,981)
Administrative expenses		(36,193)	(8,024)	(44,217)	(32,720)	(7,303)	(40,023)
<b>Operating profit</b>	2	<b>28,190</b>	<b>(8,324)</b>	<b>19,866</b>	24,971	(7,303)	17,668
Finance income	3	1,632	—	1,632	3,211	—	3,211
Finance expense	4	(3,766)	—	(3,766)	(4,776)	—	(4,776)
<b>Profit before taxation</b>	6	<b>26,056</b>	<b>(8,324)</b>	<b>17,732</b>	23,406	(7,303)	16,103
Income tax expense	8	(6,619)	2,044	(4,575)	(6,647)	1,847	(4,800)
<b>Profit for the year attributable to owners of the parent</b>		<b>19,437</b>	<b>(6,280)</b>	<b>13,157</b>	16,759	(5,456)	11,303
Earnings per share							
<b>Basic</b>	10			<b>19.97p</b>			17.27p
<b>Diluted</b>	10			<b>19.89p</b>			17.13p
<b>Dividend per share (interim paid and final proposed for the year)</b>	9			<b>10.50p</b>			9.10p



# Consolidated Statement of Comprehensive Income

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For the year ended 30 June 2010

	2010 £'000	2009 £'000
Profit for the period	13,157	11,303
Other comprehensive income:		
Effective portion of changes in fair value of cash flow hedges	593	(1,423)
Foreign currency translation differences for foreign operations	(1,949)	4,568
Net loss on hedge of net investment in foreign operations	(1,300)	(1,532)
Recycled to intangible assets	—	40
Recycled to income statement	(512)	(256)
Income tax relating to components of other comprehensive income	249	697
Total comprehensive income for the period attributable to owners of the parent	10,238	13,397

# Consolidated Statement of Financial Position

At 30 June 2010

	Note	2010 £'000	2009 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	11	80,371	89,565
Property, plant and equipment	12	7,673	8,040
<b>Total non-current assets</b>		<b>88,044</b>	97,605
<b>Current assets</b>			
Inventories	15	34,819	31,534
Trade and other receivables	16	51,162	47,717
Cash and cash equivalents	17	31,502	26,817
<b>Total current assets</b>		<b>117,483</b>	106,068
<b>Total assets</b>		<b>205,527</b>	203,673
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	20	(20,441)	(19,263)
Trade and other payables	18	(64,495)	(61,703)
Current tax liabilities	19	(4,105)	(4,756)
<b>Total current liabilities</b>		<b>(89,041)</b>	(85,722)
<b>Non-current liabilities</b>			
Borrowings	20	(17,762)	(23,081)
Deferred tax liabilities	14	(12,496)	(14,184)
<b>Total non-current liabilities</b>		<b>(30,258)</b>	(37,265)
<b>Total liabilities</b>		<b>(119,299)</b>	(122,987)
<b>Net assets</b>		<b>86,228</b>	80,686
<b>EQUITY</b>			
Issued share capital	22	661	656
Share premium account		63,021	62,437
Hedging reserve		(276)	(703)
Foreign currency translation reserve		1,340	4,686
Merger reserve		1,770	1,770
Retained earnings		19,712	11,840
<b>Total equity attributable to owners of the parent</b>		<b>86,228</b>	80,686

The financial statements were approved by the Board of Directors on 7 September 2010 and are signed on its behalf by:



**Ian Page**  
Director



**Simon Evans**  
Director

Company number: 3369634

# Consolidated Statement of Changes in Shareholders' Equity

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For the year ended 30 June 2010

	Attributable to equity holders of the parent						
	Issued share capital	Share premium account	Hedging reserve	Foreign currency translation reserve	Merger reserve	Retained earnings	Total
Year ended 30 June 2009	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 July 2008	652	62,166	281	1,608	1,770	5,322	71,799
Profit for the period	—	—	—	—	—	11,303	11,303
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	(1,024)	—	—	—	(1,024)
Foreign currency translation differences for foreign operations, net of tax	—	—	—	4,552	—	—	4,552
Net loss on hedge of net investment in foreign operations, net of tax	—	—	—	(1,290)	—	—	(1,290)
Recycled to intangible assets, net of tax	—	—	40	—	—	—	40
Recycled to income statement, net of tax	—	—	—	(184)	—	—	(184)
Total recognised income and expense for the period	—	—	(984)	3,078	—	11,303	13,397
Dividends paid	—	—	—	—	—	(5,565)	(5,565)
Share-based payments	—	—	—	—	—	780	780
Shares issued	4	271	—	—	—	—	275
At 30 June 2009	656	62,437	(703)	4,686	1,770	11,840	80,686
<b>Year ended 30 June 2010</b>							
At 1 July 2009	656	62,437	(703)	4,686	1,770	11,840	80,686
Profit for the period	—	—	—	—	—	13,157	13,157
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	427	—	—	—	427
Foreign currency translation differences for foreign operations, net of tax	—	—	—	(2,041)	—	—	(2,041)
Net loss on hedge of net investment in foreign operations, net of tax	—	—	—	(936)	—	—	(936)
Recycled to income statement, net of tax	—	—	—	(369)	—	—	(369)
Total recognised income and expense for the period	—	—	427	(3,346)	—	13,157	10,238
Dividends paid	—	—	—	—	—	(6,195)	(6,195)
Share-based payments	—	—	—	—	—	910	910
Shares issued	5	584	—	—	—	—	589
<b>At 30 June 2010</b>	<b>661</b>	<b>63,021</b>	<b>(276)</b>	<b>1,340</b>	<b>1,770</b>	<b>19,712</b>	<b>86,228</b>

## 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 2010

	2010 £'000	2009 £'000
<b>Cash flows from operating activities</b>		
Profit for the period	13,157	11,303
Adjustments for:		
Depreciation	1,509	1,477
Amortisation and impairment	7,908	7,427
Gain on sale of property, plant and equipment	—	(33)
Finance income	(1,632)	(3,211)
Finance expense	3,766	4,776
Equity-settled share-based payment expense	817	643
Income tax expense	4,575	4,800
<b>Operating cash flow before changes in working capital</b>	<b>30,100</b>	<b>27,182</b>
(Increase)/decrease in inventories	(3,126)	1,340
Increase in trade and other receivables	(3,833)	(593)
Increase/(decrease) in trade and other payables	3,521	(372)
<b>Cash generated from operations</b>	<b>26,662</b>	<b>27,557</b>
Interest paid	(3,214)	(3,996)
Income taxes paid	(6,124)	(3,227)
<b>Net cash from operating activities</b>	<b>17,324</b>	<b>20,334</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment	—	42
Interest received	1,006	2,145
Purchase of property, plant and equipment	(1,243)	(881)
Capitalised development expenditure	(955)	(785)
Purchase of other intangible non-current assets	(523)	(2,010)
<b>Net cash from investing activities</b>	<b>(1,715)</b>	<b>(1,489)</b>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of share capital	589	288
Repayment of borrowings	(5,671)	(5,658)
Movement of foreign currency borrowings	456	(3,473)
Dividends paid	(6,195)	(5,565)
<b>Net cash from financing activities</b>	<b>(10,821)</b>	<b>(14,408)</b>
<b>Net increase in cash and cash equivalents</b>	<b>4,788</b>	<b>4,437</b>
Cash and cash equivalents at start of period	26,817	22,219
Exchange differences on cash and cash equivalents	(103)	161
<b>Cash and cash equivalents at end of period</b>	<b>31,502</b>	<b>26,817</b>

## Reconciliation of net cash flow to movement in net borrowings

	Note	2010 £'000	2009 £'000
Net increase in cash and cash equivalents		4,788	4,437
Repayment of borrowings		5,671	5,658
New finance leases		—	(248)
Exchange differences on cash and cash equivalents		(103)	161
Retranslation of foreign borrowings		(1,230)	1,821
Other non-cash changes		(300)	(359)
<b>Movement in net borrowings in the period</b>		<b>8,826</b>	<b>11,470</b>
Net borrowings at start of period		(15,527)	(26,997)
<b>Net borrowings at end of period</b>	24	<b>(6,701)</b>	<b>(15,527)</b>



# Notes to the Consolidated Financial Statements

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## 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 2010 comprise the Company and its subsidiaries.

### (a) Statement of Compliance

The Consolidated Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union. The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP and they are separately presented on pages 115 to 123.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

The Group's significant accounting policies are listed below:

### (b) Basis of Preparation

The financial statements are presented in Sterling, rounded to the nearest thousand. They are prepared on the historical cost basis except for derivative financial instruments and cash-settled share-based transactions that are stated at fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by Directors in the application of accounting policies that have a significant effect on the Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed in note 28.

During the year, the Group has applied IAS 1 *Presentation of Financial Statements (revised 2007)* which has introduced a number of terminology changes (including titles for the financial statements) and has resulted in a number of changes in presentation and disclosure. The revised standard has had no impact on the reported results or financial position of the Group. In addition, the Group has adopted IFRS 2 *Amendment regarding Vesting Conditions and Cancellations*, IAS 23 *Borrowing Costs (revised 2007)* and Amendments to IAS 32 *Financial Instruments: Presentation*, none of which have had a significant effect on the reported results or financial position of the Group.

In addition, the Group has adopted IFRS 8 *Operating Segments*, with effect from 1 July 2009 and this has resulted in a change to the segmental information reported by the Group. Comparative information has been presented on a consistent basis.

The Group's operating segments are being reported based on the financial information provided to the Board of Directors.

# Notes to the Consolidated Financial Statements

## 1. Accounting Policies continued

The following have been issued but have not yet been adopted by the Group:

- Revised IFRS 3, Business Combinations.
- Amendments to IAS 32, Financial Instruments: Presentation.
- Amendments to IAS 39, Financial Instruments: Recognition and Measurement.
- IFRIC 13, Customer Loyalty Programmes.
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation.
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments.
- Amendments to IAS 24, Related Party Disclosures.

The Directors anticipate that the adoption of these Standards/revisions to Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for the revisions to IFRS 3 which become effective for periods on or after 1 July 2010.

### (c) Basis of Consolidation

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

#### (ii) Transactions Eliminated on Consolidation

Intra-Group balances and any unrealised gains and losses or income and expenses arising from intra-Group transactions are eliminated in preparing the Consolidated Financial Statements.

### (d) Business Combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of completion, of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

### (e) Foreign Currency Translation

#### (i) Functional Currency

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.

## 1. Accounting Policies continued

### (iii) Foreign Operations

The results and financial position of all the Group entities that have a functional currency different from the Group presentation currency are translated into Sterling as follows:

- (i) assets and liabilities are translated at the closing rate at the reporting date;
- (ii) income and expenses are translated at the average rate for the period being reported.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to Shareholders' equity, being recognised in the foreign currency translation reserve.

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 are recognised in the income statement in the same period in which the gain or loss on disposal is recognised.

There are no Group entities operating in a hyperinflationary economy.

## (f) Financial Assets and Liabilities

### Financial Assets

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.

### 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. Loans and receivables are carried at amortised cost using the effective interest method. Financial assets not carried at fair value through the income statement are initially recognised at fair value plus transaction costs.

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. Impairment losses recognised on these instruments are not reversed through the income statement if the fair value of the instrument increases in a later period.

### 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.

# Notes to the Consolidated Financial Statements

## 1. Accounting Policies continued

### 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 in 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.

#### Hedges of Net Investment in Foreign Operations

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised in the Foreign Currency Translation Reserve within equity, to the extent that the hedge is effective. (A monetary item receivable or payable with a foreign operation where settlement is neither planned or likely to occur in the foreseeable future can be considered to be in substance a part of the Company's net investment in the foreign operation). To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged part of a net investment is disposed of, or the monetary item no longer meets the criteria for net investment hedge accounting, the associated cumulative amount in equity is recycled to profit or loss as an adjustment to the profit or loss on disposal.

### Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a third party with no intention of trading the receivable. They are included in current assets, except for those with maturities greater than one year after the balance sheet date (these are classified as non-current assets). Receivables are included in trade and other receivables in the balance sheet.

Receivables are recognised initially at fair value and subsequently measured at amortised cost. Amortised cost is determined using the effective interest method less an allowance for impairment. An allowance for impairment of 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 allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows (discounted at the effective interest rate). The allowance is initially recognised in the income statement.

### Trade and Other Payables

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

### Borrowings

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.



**1. Accounting Policies continued****(g) Property, Plant and Equipment****(i) Owned Assets**

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

**(ii) 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.

**(iii) Depreciation**

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

**(h) Intangible Assets****(i) 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 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.

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.

**(ii) 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 balance sheet 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.

# Notes to the Consolidated Financial Statements

## 1. Accounting Policies continued

### (iii) 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.

### (iv) 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.

### (v) 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.

### (vi) 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 balance sheet 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
● acquired intangibles	10–15 years
● patent rights	Period of patent
● marketing authorisations	Indefinite life
● product rights	Period of product rights

### (i) 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.

### (j) 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.

## 1. Accounting Policies continued

### (k) Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet 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 balance sheet 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.

### (l) 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.

### (m) 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 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.

#### (ii) Share-based Payment Transactions

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

The fair value of shares or options granted is recognised as an employee expense on a straight-line basis in the income statement 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 income statement 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.

# Notes to the Consolidated Financial Statements

## 1. Accounting Policies continued

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

The fair values of options granted under all other share option schemes have been determined using the Black-Scholes option pricing model.

National Insurance contributions payable by the Company on the intrinsic value of share-based payments at the date of exercise are treated as cash-settled awards and revalued to market price at each balance sheet date.

### (n) Revenue

#### (i) Goods Sold

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. Appropriate provision is made, based on past experience, for the possible return of goods and discounts given to customers.

#### (ii) Services Provided

Revenue is recognised when the contractual service has been provided to the customer.

#### (iii) Royalty and Milestone Payments

Milestone payments received from the granting of distribution and marketing rights for products are recognised in the income statement over the period in which the Company fulfils the longer of all of its obligations and the period for which rights are granted relating to such payments.

### (o) Expenses

#### (i) Operating Lease Payments

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

#### (ii) Finance Lease Payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

#### (iii) Net Financing Costs

Net financing costs comprise interest payable on borrowings, interest receivable on funds invested, gains and losses on hedging instruments that are recognised in the income statement (see accounting policy f) 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 interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.



## 1. Accounting Policies continued

### (p) Income Tax

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

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

Deferred tax is provided using the balance sheet 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, using tax rates expected to apply in the period in which the liability is settled or the asset is realised and is based upon tax rates enacted or substantively enacted at the balance sheet 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 balance sheet date.

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

### (q) Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

### (r) Operating Profit and Operating Cash Flow

Operating profit and operating cash flow is stated before investment income and finance costs.

## 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.

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

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

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

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

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

# Notes to the Consolidated Financial Statements

## 2. Operating Segments continued

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

	2010 £'000	2009 £'000
<b>Revenue by segment</b>		
Services — total	285,670	276,141
— intersegment	(195)	(266)
European Pharmaceuticals — total	84,637	77,411
— intersegment	(11,377)	(11,101)
US Pharmaceuticals	10,634	7,779
	369,369	349,964
<b>Operating profit/(loss) by segment</b>		
Services	13,103	12,334
European Pharmaceuticals	21,412	17,964
US Pharmaceuticals	1,311	815
Pharmaceuticals research and development	(4,666)	(3,433)
<b>Segment operating profit</b>	31,160	27,680
Corporate and other unallocated costs	(2,970)	(2,709)
Amortisation of acquired intangibles	(6,580)	(6,833)
Rationalisation costs	(1,096)	—
Impairment of intangible assets	(230)	—
Payment to acquire technology for research and development programme	(418)	(470)
<b>Total operating profit</b>	19,866	17,668
Finance income	1,632	3,211
Finance expense	(3,766)	(4,776)
<b>Profit before taxation</b>	17,732	16,103
<b>Total assets by segment</b>		
Services	103,324	93,385
European Pharmaceuticals	117,741	123,783
US Pharmaceuticals	5,472	5,296
Pharmaceuticals research and development	1,958	2,448
Unallocated	(22,968)	(21,239)
	205,527	203,673
<b>Total liabilities by segment</b>		
Services	(51,386)	(48,607)
European Pharmaceuticals	(11,954)	(12,422)
US Pharmaceuticals	(557)	(389)
Pharmaceuticals research and development	(567)	—
Unallocated	(54,835)	(61,569)
	(119,299)	(122,987)
<b>Additions to intangibles by segment</b>		
Services	136	84
European Pharmaceuticals	497	396
US Pharmaceuticals	—	—
Pharmaceuticals research and development	845	888
	1,478	1,368

**2. Operating Segments** continued

	2010 £'000	2009 £'000
<b>Additions to Property, Plant and Equipment by segment</b>		
Services	142	300
European Pharmaceuticals	813	724
US Pharmaceuticals	288	33
Pharmaceuticals research and development	—	29
	<b>1,243</b>	<b>1,086</b>
<b>Depreciation and amortisation by segment</b>		
Services	448	578
European Pharmaceuticals	8,251	7,954
US Pharmaceuticals	182	197
Pharmaceuticals research and development	306	175
	<b>9,187</b>	<b>8,904</b>

**Geographical Information**

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

	2010 Revenues £'000	2010 Non-current assets £'000	2009 Revenues £'000	2009 Non-current assets £'000
UK	305,992	20,981	300,081	21,550
Rest of Europe	49,451	67,033	39,017	76,024
USA	10,634	30	7,779	31
Rest of World	3,292	—	3,087	—
	<b>369,369</b>	<b>88,044</b>	<b>349,964</b>	<b>97,605</b>

Details of the largest customer of the Group can be found in note 21. There are no significant revenue streams other than from the sale of goods.

# Notes to the Consolidated Financial Statements

## 3. Finance Income

	2010 £'000	2009 £'000
<b>Recognised in profit or loss</b>		
Finance income arising from:		
— Cash and cash equivalents	894	1,854
— Derivatives at fair value through profit or loss	—	38
— Loans and receivables	112	291
— Foreign exchange gains	626	1,028
	<b>1,632</b>	<b>3,211</b>

Finance income arising from cash and cash equivalents and loans and receivables is not at fair value through profit or loss. Finance income arising from derivatives at fair value through profit or loss relates to fair value gains on forward foreign currency contracts.

	2010 £'000	2009 £'000
<b>Recognised in other comprehensive income</b>		
Foreign currency translation differences for foreign operations	(1,949)	4,568
Net loss on hedge of net investment in foreign operations	(1,300)	(1,532)
Amount recycled to income statement*	(512)	(256)
Income tax credit on above	415	298
Recognised in foreign currency translation reserve	<b>(3,346)</b>	<b>3,078</b>

	2010 £'000	2009 £'000
Fair value gains/(losses) on interest rate floor and ceiling	593	(1,423)
Income tax (expense)/credit on above	(166)	399
Amount recycled to intangible assets	—	40
Recognised in hedging reserve	427	(984)
Total recognised in other comprehensive income	<b>(2,919)</b>	<b>2,094</b>

\* Gains and losses previously included in equity as a result of net investment hedging are recycled to the Income Statement to the extent that the hedged item is disposed of.

## 4. Finance Expense

	2010 £'000	2009 £'000
Finance expense arising from:		
— Financial liabilities at amortised cost	3,365	4,776
— Derivatives at fair value through profit or loss	401	—
	<b>3,766</b>	<b>4,776</b>

Finance expense arising from financial liabilities at amortised cost is not at fair value through profit or loss. Finance expense arising from derivatives at fair value through profit or loss relates to fair value losses on forward foreign currency contracts.

## 5. Adjusted Operating Profit and Profit Before Taxation

Adjusted operating profit is calculated as follows:

	2010 £'000	2009 £'000
<b>Operating profit</b>		
Operating profit	19,866	17,668
Amortisation of intangible assets acquired as a result of business combinations	6,580	6,833
Rationalisation costs	1,096	—
Payment to acquire technology for research and development programme	418	470
Impairment of intangible asset	230	—
Adjusted operating profit	28,190	24,971

Adjusted profit before taxation is calculated as follows:

	2010 £'000	2009 £'000
<b>Profit before taxation</b>		
Profit before taxation	17,732	16,103
Amortisation of intangible assets acquired as a result of business combinations	6,580	6,833
Rationalisation costs	1,096	—
Payment to acquire technology for research and development programme	418	470
Impairment of intangible asset	230	—
Adjusted profit before taxation	26,056	23,406

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

## 6. Profit Before Taxation

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

	2010 £'000	2009 £'000
Cost of inventories recognised as an expense	285,609	272,876
Impairment of inventories included in above figure	292	326
Depreciation of property, plant and equipment		
— owned assets	1,202	1,216
— under finance leases	307	261
Amortisation of intangible assets	7,678	7,427
Impairment of patent rights	230	—
Profit on disposal of property, plant and equipment	—	(33)
Impairment of receivables	280	1,080
Operating lease rentals payable	3,150	3,171
Research and development expenditure as incurred	4,666	3,433
Auditors' remuneration	409	363
Analysis of total fees paid to the auditors:		
Audit of these financial statements	51	50
Audit of financial statements of subsidiaries pursuant to legislation	212	216
Other services pursuant to legislation	14	5
Other services relating to taxation	132	92
	409	363



# Notes to the Consolidated Financial Statements

## 7. Employees

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

	2010 Number	2009 Number
Manufacturing	238	237
Distribution	432	438
Administration	351	337
	<b>1,021</b>	1,012

The costs incurred in respect of these employees were:

	2010 £'000	2009 £'000
Wages and salaries	26,137	26,061
Social security costs	2,792	2,481
Other pension costs	1,340	1,262
Share-based payments charge (see note 23)	910	741
	<b>31,179</b>	30,545

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

	2010 £'000	2009 £'000
Wages and salaries (including benefits in kind)	1,745	2,108
Social security costs	223	270
Other pension costs	159	151
Share-based payments charge	537	503
	<b>2,664</b>	3,032

Key management comprises Executive Directors, the Product Development and Regulatory Affairs Director and the Divisional Managing Directors.

Details of the remuneration, shareholdings, share options and pension contributions of the Executive Directors are included in the Directors' Remuneration Report on pages 51 to 59.

The Group operates a stakeholder personal pension scheme for certain employees and contributed between 4% and 14% of pensionable salaries. The Group also participates in State run pension arrangements for certain employees in Dechra Veterinary Products SAS and Dechra Veterinary Products BV. Total pension contributions amounted to £1,340,000 (2009: £1,262,000).

## 8. Income Tax Expense

	2010 £'000	2009 £'000
Current tax		
— charge for current year	6,304	5,707
— adjustment in respect of prior years	(92)	(53)
Total current tax expense	6,212	5,654
Deferred tax		
— origination and reversal of temporary differences	(1,637)	(1,008)
— adjustment in respect of prior years	—	154
Total deferred tax expense	(1,637)	(854)
Total income tax expense in the income statement	4,575	4,800

Of the current tax expense of £6,212,000, an amount of £2,940,000 (2009: £139,000) was in respect of foreign territories.

The tax on the Group's profit before tax differs from the standard rate of UK corporation tax of 28% (2009: 28%). The differences are explained below:

	2010 £'000	2009 £'000
Profit before taxation	17,732	16,103
Tax at 28% (2009: 28%)	4,965	4,509
Effect of:		
— depreciation on assets not eligible for tax allowances	8	53
— disallowable expenses	48	144
— overseas trading losses	—	39
— under-recovery of deferred tax on share-based payments	40	14
— research and development tax credits	(60)	(200)
— differences on overseas tax rates	(334)	140
— adjustments in respect of prior years	(92)	101
Total income tax expense	4,575	4,800

### Tax Asset/(Liability) Recognised Directly in Equity

	2010 £'000	2009 £'000
Deferred tax on effective portion of changes in fair value of cash flow hedges	(166)	398
Corporation tax on net loss on hedge of net investment in foreign operations	364	242
Deferred tax on currency translation	(92)	(15)
Corporation tax on amount recycled to income statement	143	72
<b>Tax recognised in statement of comprehensive income</b>	<b>249</b>	<b>697</b>
Corporation tax on equity settled transactions	313	180
Deferred tax on equity settled transaction	(220)	(43)
<b>Total tax recognised in equity</b>	<b>342</b>	<b>834</b>

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of four years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from 1 April 2011. This will reduce the Company's future current tax charge accordingly. If the rate change from 28% to 27% had been substantively enacted on or before the balance sheet date it would have had the effect of reducing the deferred tax liability recognised at that date by £7,000.

# Notes to the Consolidated Financial Statements

## 9. Dividends

	2010 £'000	2009 £'000
Final dividend paid in respect of prior year but not recognised as a liability in that year: 6.10p per share (2009: 5.50p)	4,000	3,600
Interim dividend paid: 3.30p per share (2009: 3.00p)	2,195	1,965
Total dividend 9.40p per share (2009: 8.50p) recognised as distributions to equity holders in the period	6,195	5,565
Proposed final dividend for the year ended 30 June 2010: 7.20p per share (2009: 6.10p)	4,758	4,000
Total dividend paid and proposed for the year ended 30 June 2010: 10.50p per share (2009: 9.10p)	6,953	5,965

In accordance with IAS 10 "Events After the Balance Sheet Date", the proposed final dividend for the year ended 30 June 2010 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 2011.

The proposed final dividend for the year ended 30 June 2009 is shown as a deduction from equity in the year ended 30 June 2010.

## 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.

	2010 Pence	2009 Pence
Basic earnings per share		
— Adjusted basic	29.50	25.61
— Basic	19.97	17.27
Diluted earnings per share		
— Adjusted diluted	29.39	25.40
— Diluted	19.89	17.13

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

	£'000	£'000
Earnings for adjusted basic and adjusted diluted earnings per share calculations	19,437	16,759
Earnings for basic and diluted earnings per share figures	13,157	11,303

	No.	No.
Weighted average number of ordinary shares for basic earnings per share	65,896,462	65,431,902
Impact of share options	241,438	550,580
Weighted average number of ordinary shares for diluted earnings per share	66,137,900	65,982,482

## 11. Intangible Assets

	Goodwill £'000	Software £'000	Develop- ment costs £'000	Patent rights £'000	Marketing authori- sations £'000	Acquired intangibles £'000	Total £'000
<b>Cost</b>							
At 1 July 2008	19,844	1,816	4,108	2,925	853	64,468	94,014
Additions	—	273	785	310	—	—	1,368
Disposals	—	—	—	(452)	—	—	(452)
Foreign exchange adjustments	1,261	8	21	—	—	4,411	5,701
At 30 June 2009 and 1 July 2009	21,105	2,097	4,914	2,783	853	68,879	100,631
Additions	—	447	955	76	—	—	1,478
Disposals	—	(1)	—	—	—	—	(1)
Foreign exchange adjustments	(609)	(21)	(13)	—	—	(2,120)	(2,763)
<b>At 30 June 2010</b>	<b>20,496</b>	<b>2,522</b>	<b>5,856</b>	<b>2,859</b>	<b>853</b>	<b>66,759</b>	<b>99,345</b>
<b>Amortisation</b>							
At 1 July 2008	—	281	356	—	—	3,002	3,639
Charge for the year	—	216	267	111	—	6,833	7,427
At 30 June 2009 and 1 July 2009	—	497	623	111	—	9,835	11,066
Charge for the year	—	257	611	230	—	6,580	7,678
Impairment loss	—	—	—	230	—	—	230
<b>At 30 June 2010</b>	<b>—</b>	<b>754</b>	<b>1,234</b>	<b>571</b>	<b>—</b>	<b>16,415</b>	<b>18,974</b>
<b>Net book value</b>							
<b>At 30 June 2010</b>	<b>20,496</b>	<b>1,768</b>	<b>4,622</b>	<b>2,288</b>	<b>853</b>	<b>50,344</b>	<b>80,371</b>
At 30 June 2009 and 1 July 2009	21,105	1,600	4,291	2,672	853	59,044	89,565
At 30 June 2008	19,844	1,535	3,752	2,925	853	61,466	90,375
						<b>2010</b>	2009
						<b>£'000</b>	£'000
Contracted capital commitments						<b>948</b>	302
Software assets in the course of construction included above						<b>1,031</b>	943

Goodwill is allocated across cash-generating units and consequently a consistent approach in assessing the carrying value of this amount is taken. Key assumptions made in this respect are given in note 13.

## Notes to the Consolidated Financial Statements

### 11. Intangible Assets continued

Development costs are internally generated. All other additions to intangible assets were acquired outside the Group and have been measured at cost or fair value at the time of acquisition.

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

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

The principal asset within patent rights comprises payments to acquire the right to develop and market Trilostane, the active ingredient of *Vetoryl* Capsules, for animal health applications in the USA and Canada. The carrying value at 30 June 2010 was £1.9 million with a remaining amortisation period of 8½ 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.

Acquired intangibles comprise:

- Marketing authorisations, brands and trademarks of products recognised on the acquisition of Dechra Veterinary Products Holding A/S (formerly *VetXX* Holding A/S)
- Customer relationships recognised on the acquisition of Leeds Veterinary Laboratories Limited
- Trademarks and brands recognised on the acquisition of Pharmaderm Animal Health

The principal assets within acquired intangibles are the marketing authorisations, brands and trademarks of products recognised on the acquisition of Dechra Veterinary Products Holding A/S. The carrying value of these assets at 30 June 2010 was £48.1 million with a remaining amortisation period of 7½ years. The other significant assets within acquired intangibles are the trademarks and brands recognised on the acquisition of Pharmaderm Animal Health. The carrying value at 30 June 2010 was £2.0 million with a remaining amortisation period of 12 years.



## 12. Property, Plant and Equipment

	Freehold land and buildings £'000	Short leasehold buildings £'000	Motor vehicles £'000	Plant and fixtures £'000	Total £'000
<b>Cost</b>					
At 1 July 2008	2,169	2,772	431	8,556	13,928
Additions	—	160	—	926	1,086
Disposals	—	—	(230)	(17)	(247)
Foreign exchange adjustments	157	—	—	59	216
At 30 June 2009 and 1 July 2009	2,326	2,932	201	9,524	14,983
Additions	—	395	—	848	1,243
Disposals	—	—	—	—	—
Foreign exchange adjustments	(70)	—	—	(31)	(101)
<b>At 30 June 2010</b>	<b>2,256</b>	<b>3,327</b>	<b>201</b>	<b>10,341</b>	<b>16,125</b>
<b>Depreciation</b>					
At 1 July 2008	61	851	431	4,361	5,704
Charge for the year	135	168	—	1,174	1,477
Disposals	—	—	(230)	(8)	(238)
At 30 June 2009 and 1 July 2009	196	1,019	201	5,527	6,943
Charge for the year	138	231	—	1,140	1,509
Disposals	—	—	—	—	—
<b>At 30 June 2010</b>	<b>334</b>	<b>1,250</b>	<b>201</b>	<b>6,667</b>	<b>8,452</b>
<b>Net book value</b>					
<b>At 30 June 2010</b>	<b>1,922</b>	<b>2,077</b>	<b>—</b>	<b>3,674</b>	<b>7,673</b>
At 30 June 2009 and 1 July 2009	2,130	1,913	—	3,997	8,040
At 30 June 2008	2,108	1,921	—	4,195	8,224
<b>Net book value of assets held under finance leases</b>					
<b>At 30 June 2010</b>	<b>—</b>	<b>47</b>	<b>—</b>	<b>751</b>	<b>798</b>
At 30 June 2009 and 1 July 2009	—	55	—	970	1,025
At 30 June 2008	—	84	—	938	1,022
				<b>2010</b>	2009
				<b>£'000</b>	£'000
Assets in the course of construction included above				<b>104</b>	221
Contracted capital commitments				<b>382</b>	269

# Notes to the Consolidated Financial Statements

## 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 amounts 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 three year business plan year ending 30 June 2013 extrapolated by applying a growth rate of 5% (2009: 5%) per annum up to year five and thereafter a growth rate of 1% (2009: 1%) per annum into perpetuity which is considered to be consistent with the long-term average growth rate for the industry.

The business plan has been formulated based on various factors, including market growth forecasts, the experience of the impact of previous recessions and existing product growth. These factors reflect past experience of the Group and where applicable are consistent with external sources of information.

The pre-tax discount rates have been estimated using the Group's weighted average cost of capital, which is adjusted for consideration of market information, and risk adjusted dependent upon the specific circumstances of each asset or cash-generating unit.

Value in use calculations were performed at 30 June 2010 for the following assets:

### (a) Goodwill

	2010		2009	
	Carrying value	Pre-tax discount rate	Carrying value	Pre-tax discount rate
	£'000	%	£'000	%
Cash-generating unit				
Dechra Veterinary Products EU	15,644	10.95	16,253	11.73
Laboratories	2,621	11.15	2,621	10.42
Dales	2,231	11.14	2,231	10.42

### (b) Indefinite Life Assets

	2010		2009	
	Carrying value	Pre-tax discount rate	Carrying value	Pre-tax discount rate
	£'000	%	£'000	%
Asset				
Vetivex licences	822	10.98	822	11.73

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

## 14. Deferred Taxes

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

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
	£'000	£'000	£'000	£'000	£'000	£'000
Intangible assets	—	—	(13,217)	(15,391)	(13,217)	(15,391)
Property, plant and equipment	—	—	(556)	(521)	(556)	(521)
Inventories	548	520	—	—	548	520
Receivables	49	44	—	(142)	49	(98)
Payables	173	427	(93)	—	80	427
Trading losses	—	91	—	—	—	91
Share-based payments	600	788	—	—	600	788
	1,370	1,870	(13,866)	(16,054)	(12,496)	(14,184)

Deferred tax assets and liabilities are offset to the extent that there is a legally enforceable right to offset current tax assets against current tax liabilities.

### (b) Unrecognised Deferred Tax Liabilities

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised is £295,000 (2009: £2,230,000). The estimated unprovided deferred tax liability in relation to these temporary differences is £73,000 (2009: £558,000).

# Notes to the Consolidated Financial Statements

## 14. Deferred Taxes continued

### (c) Movement in Temporary Differences During the Year

	Balance at 1 July 2008 £'000	Recognised in income £'000	Recognised in equity £'000	Foreign exchange adjustments £'000	Balance at 30 June 2009 £'000
Intangible assets	(15,872)	1,585	—	(1,104)	(15,391)
Property, plant and equipment	(423)	(84)	—	(14)	(521)
Inventories	(19)	539	—	—	520
Receivables	(294)	71	125	—	(98)
Payables	248	(95)	258	16	427
Trading losses	1,309	(1,205)	—	(13)	91
Share-based payments	788	43	(43)	—	788
	(14,263)	854	340	(1,115)	(14,184)

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

## 15. Inventories

	2010 £'000	2009 £'000
Raw materials and consumables	4,129	3,493
Work in progress	336	412
Finished goods and goods for resale	30,354	27,629
	34,819	31,534

## 16. Trade and Other Receivables

	2010 £'000	2009 £'000
Trade receivables	48,293	44,950
Other receivables	1,524	1,064
Derivative financial instruments	—	205
Prepayments and accrued income	1,345	1,498
	51,162	47,717

**17. Cash and Cash Equivalents**

	2010 £'000	2009 £'000
Cash at bank and in hand	26,502	26,817
Short-term deposits	5,000	—
	<b>31,502</b>	26,817

The short-term deposits are repayable on demand.

**18. Trade and Other Payables**

	2010 £'000	2009 £'000
Trade payables	56,465	49,191
Other payables	2,991	4,643
Derivative financial instruments	573	977
Other taxation and social security	2,707	3,862
Accruals and deferred income	1,759	3,030
	<b>64,495</b>	61,703

**19. Current Tax Liabilities**

	2010 £'000	2009 £'000
Corporation tax payable	4,105	4,756

**20. Borrowings**

	2010 £'000	2009 £'000
Current liabilities:		
Bank loans	20,000	18,648
Finance lease obligations	441	615
	<b>20,441</b>	19,263
Non-current liabilities:		
Bank loans	17,500	22,500
Finance lease obligations	729	1,231
Arrangement fees netted off	(467)	(650)
	<b>17,762</b>	23,081
Total borrowings	<b>38,203</b>	42,344

The Group's borrowing facilities comprise a term loan of £22.5 million repayable in equal instalments of £2.5 million each 30 June and 31 December, a £15 million revolving credit facility committed until 31 December 2012, an overdraft facility of £10 million renewable on 30 September 2010 and various finance lease obligations.



# Notes to the Consolidated Financial Statements

## 20. Borrowings continued

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

	2010 £'000	2009 £'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 0.85% over LIBOR in respect of the term loan and revolving credit facility and 2.5% over base rate in respect of the overdraft facility. No covenants have been breached during the year ended 30 June 2010.

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

	2010 £'000	2009 £'000
Payable:		
Within one year	20,000	18,648
Between one and two years	5,000	5,000
Between two and five years	12,500	15,000
Due after five years	—	2,500
	37,500	41,148

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	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Within one year	510	724	447	615
Between one and two years	488	533	453	461
Between two and five years	283	816	270	770
Total minimum lease payments	1,281	2,073	1,170	1,846
Future finance charges	(111)	(227)	—	—
Present value of lease obligations	1,170	1,846	1,170	1,846

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

## 21. Financial Instruments and Related Disclosures

The Group's financial instruments comprise cash deposits, bank loans and overdrafts, finance lease obligations, derivatives used for hedging purposes and trade receivables and payables.

### Treasury Policy

The Group reports in Sterling and pays dividends out of Sterling profits. The role of the Group's treasury activities is to manage and monitor the Group's external and internal funding requirements and financial risks in support of the Group's corporate activities.

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

The Group uses a variety of financial instruments, including derivatives, to finance its operations and to manage market risks from these operations. Derivatives, principally comprising forward foreign currency contracts, foreign currency options and interest rate floors and ceilings, are used to hedge against changes in foreign currencies and interest rates.

The Group does not hold or issue derivative financial instruments for speculative purposes and the Group's treasury policies specifically prohibit 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 2010, net borrowings were £6.7 million, whilst shareholders' equity was £86.2 million.

The Group manages its capital structure to maintain a prudent balance between debt and equity that allows sufficient headroom to finance the Group's product development programme and appropriate acquisitions. Current economic conditions mean that it is more difficult and expensive to obtain finance via borrowings. It is therefore the policy of the Board to reduce borrowings over time.

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.

Operating cash flow is used to fund investment in the development of new products as well as to make the routine outflows of capital expenditure, tax, dividends and repayment of maturing debt.

The Group's policy is to maintain borrowing facilities centrally which are then used to finance the Group's operating subsidiaries, either by way of equity investments or loans.

### Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- liquidity risk
- market risk
- credit risk

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk.

# Notes to the Consolidated Financial Statements

## 21. Financial Instruments and Related Disclosures continued

### 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:

- £22.5 million term loan
- £15 million revolving credit facility
- £10 million working capital facility
- various finance leases

The Group's undrawn borrowing facilities at 30 June 2010 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 its term loan by means of an interest rate floor and ceiling arrangement whereby the Group's exposure to fluctuations in LIBOR is limited to a minimum rate of 4.40% and a maximum rate of 5.70%. The amount of the term loan outstanding at 30 June 2010 was £22.5 million. The hedge is in place until 31 December 2010 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. However, translational exposure in converting the income statements of foreign subsidiaries into the Group's presentational currency of Sterling is not hedged.

Where foreign subsidiaries have ongoing funding requirements in the local currency, then forward contracts are used.

The Group also hedges selectively expected currency cash flows outside normal trading activities, principally using foreign currency options.

## 21. 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 £79,795,000 (2009: £71,972,000) which is the total carrying value of the Group's financial assets.

Cash is only deposited with highly rated banks.

The Group offers trade credit to customers in the normal course of business. Trade and bank references are obtained prior to extending credit. The financial statements of corporate customers are monitored on a regular basis.

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

The principal customers of the Pharmaceuticals segments are European and US wholesalers. The failure of a large wholesaler could have a material adverse impact on the Group's financial results.

The largest customer of the Group accounted for approximately 9.4% of gross trade receivables at 30 June 2010 (2009: 8.0%).

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 2010 and 30 June 2009.

The following assumptions were used to estimate the fair values:

- Cash and cash equivalents — approximates to the carrying amount.
- Forward exchange contracts — based on market price and exchange rates at the balance sheet date.
- Currency options and interest rate floor and ceiling — based upon the amount that the Group would receive or pay to terminate the instrument at the balance sheet date, being the market price of the instrument.
- Receivables and payables — approximates to the carrying amount.
- Bank loans and overdrafts — based upon discounted cash flows using discount rates based upon facility rates renegotiated after the 30 June 2009 year end.
- Finance lease obligations — based upon discounted cash flows using discount rates based upon the Group's cost of borrowing at the balance sheet date.

# Notes to the Consolidated Financial Statements

## 21. Financial Instruments and Related Disclosures continued

### Analysis of Financial Instruments

The financial instruments of the Group are analysed as follows:

	2010		2009	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
<b>Financial assets</b>				
Cash and cash equivalents	31,502	31,502	26,817	26,817
Held for trading financial assets:				
— derivatives designated as hedges	—	—	—	—
— other derivatives	—	—	205	205
	—	—	205	205
Loans and receivables				
— trade receivables	48,293	48,293	44,950	44,950
— other receivables within the scope of IAS 39	—	—	—	—
	48,293	48,293	44,950	44,950
Total financial assets	79,795	79,795	71,972	71,972
<b>Financial liabilities</b>				
Bank loans and overdrafts	(37,033)	(36,155)	(40,498)	(39,233)
Held for trading financial liabilities:				
— derivatives designated as hedges	(384)	(384)	(977)	(977)
— other derivatives	(189)	(189)	—	—
Finance lease liabilities	(1,170)	(1,260)	(1,846)	(1,976)
Trade payables	(56,465)	(56,465)	(49,191)	(49,191)
Total financial liabilities	(95,241)	(94,453)	(92,512)	(91,377)
Net financial liabilities	(15,446)	(14,658)	(20,540)	(19,405)

### 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).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>30 June 2010</b>				
Financial assets designated at fair value through profit or loss	—	—	—	—
	—	—	—	—
Derivative financial liabilities	(573)	—	—	(573)
Net	(573)	—	—	(573)
<b>30 June 2009</b>				
Financial assets designated at fair value through profit or loss	205	—	—	205
	205	—	—	205
Derivative financial liabilities	(977)	—	—	(977)
Net	(772)	—	—	(772)



**21. 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:

	2010 £'000	2009 £'000
Overdue by:		
Up to one month	2,403	2,520
Between one and two months	613	569
Between two and three months	419	365
Over three months	730	710
	4,165	4,164

The movement in the impairment provision was as follows:

	2010 £'000	2009 £'000
At 1 July 2009	2,502	1,583
Impairment provision recognised	87	1,080
Impairment provision utilised	(206)	(161)
At 30 June 2010	2,383	2,502

**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 2010 and 30 June 2009. Where interest is at floating rates, the future interest payments have been estimated using current interest rates:

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

Of the bank loans and overdrafts of £17,744,000 payable within six months, £15,000,000 is available to be drawn down again.

# Notes to the Consolidated Financial Statements

## 21. Financial Instruments and Related Disclosures continued

	Bank Loans and Overdrafts	Finance Leases	Trade Payables	Total
At 30 June 2009	£'000	£'000	£'000	£'000
Carrying value	(40,498)	(1,846)	(49,191)	(91,535)
Arrangement fees netted off	(650)	—	—	(650)
Future interest	(1,779)	(227)	—	(2,006)
Total committed cash flow	(42,927)	(2,073)	(49,191)	(94,191)
Payable:				
Within 6 months	(16,523)	(393)	(49,191)	(66,107)
Between 6 months and 1 year	(2,755)	(334)	—	(3,089)
Between 1 and 2 years	(5,434)	(534)	—	(5,968)
Between 2 and 3 years	(5,332)	(505)	—	(5,837)
Between 3 and 4 years	(5,229)	(307)	—	(5,536)
Between 4 and 5 years	(5,128)	—	—	(5,128)
Over 5 years	(2,526)	—	—	(2,526)
	(42,927)	(2,073)	(49,191)	(94,191)

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

	2010		2009	
	Receivables	Payables	Receivables	Payables
	£'000	£'000	£'000	£'000
Due:				
Within 6 months	—	384	3,305	3,464
Between 6 months and 1 year	—	—	1,721	1,800
Between 1 and 2 years	—	—	—	—
	—	384	5,026	5,264

The Group has a contractual obligation to pay £384,000 (2009: £442,000) under its interest rate floor and ceiling arrangement covering the period from 1 July to 31 December 2010.

There are no contractual cash flows arising from foreign currency options as the Group has the right, but not the obligation, to purchase foreign currency.

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

**21. Financial Instruments and Related Disclosures** continued**Foreign Currency Exposure**

The Sterling equivalents of financial assets and liabilities denominated in foreign currencies at 30 June 2010 and 30 June 2009 were:

	Danish Krone £'000	Euro £'000	US Dollar £'000	Other £'000
<b>At 30 June 2010</b>				
Financial assets				
Trade receivables	4,542	3,033	1,374	1,267
Other receivables	—	—	—	532
Cash balances	1,367	737	948	475
Derivatives	—	—	—	—
Other financial assets	—	—	—	—
	5,909	3,770	2,322	2,274
Financial liabilities				
Bank loans	—	(744)	(1,595)	—
Finance leases	—	(862)	—	—
Trade payables	(9,734)	(858)	(462)	(1,001)
Derivatives	—	—	—	—
	(9,734)	(2,464)	(2,057)	(1,001)
Net balance sheet exposure	(3,825)	1,306	265	1,273
	Danish Krone £'000	Euro £'000	US Dollar £'000	Other £'000
<b>At 30 June 2009</b>				
<b>Financial assets</b>				
Trade receivables	—	2,825	—	1,001
Other receivables	—	157	—	—
Cash balances	—	4,214	872	178
Derivatives	—	—	—	—
Other financial assets	—	—	—	—
	—	7,196	872	1,179
<b>Financial liabilities</b>				
Bank loans	(22,018)	(1,038)	—	—
Finance leases	—	(1,209)	—	—
Trade payables	(21)	(694)	(136)	(50)
Derivatives	—	—	—	—
	(22,039)	(2,941)	(136)	(50)
Net balance sheet exposure	(22,039)	4,255	736	1,129

# Notes to the Consolidated Financial Statements

## 21. Financial Instruments and Related Disclosures continued

### Sensitivity Analysis

#### Interest Rate Risk

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

#### Foreign Currency Risk

The Group has significant cash flows and net financial assets and liabilities in Danish Krone, US Dollar and Euro.

The following table shows the impact on the Group's profit before taxation and net assets of a 10% appreciation of Sterling against each of these currencies:

	Profit before taxation £'000	Net assets £'000
Danish Krone	(4,188)	(4,188)
US Dollar	(1,129)	(1,129)
Euro	(945)	(945)

### Hedges

#### Cash Flow Hedges

The Group has entered into an interest rate floor and ceiling on the term loan of £22.5 million and designated it 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 December 2010. The amounts recognised in equity are recycled to the income statement to offset gains and losses in the period in which the cash flow occurs.

The amount recognised in equity in the year ended 30 June 2010 was a liability of £276,000 including an income tax credit of £107,000 (2009: £703,000 including an income tax credit of £274,000).

#### Net Investment Hedges

Borrowings in Danish Krone taken out at the time of the acquisition of Dechra Veterinary Products Holding A/S (formerly VetXX Holding A/S) were designated as a net investment hedge in respect of foreign currency translation risk arising on the Group's net investment in Dechra Veterinary Products Holding A/S. No ineffectiveness arose on the hedge. The Danish Krone borrowings were repaid on 30 December 2009 causing the hedge to cease.

## 22. Share Capital

	Ordinary shares of 1p each			
	2010		2009	
	£'000	No.	£'000	No.
Allotted, called up and fully paid at start of year	656	65,581,924	652	65,241,909
New shares issued	5	508,151	4	340,015
Allotted, called up and fully paid at end of year	661	66,090,075	656	65,581,924

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital. At the 2009 Annual General Meeting Shareholders approved a resolution whereby all provisions relating to the Company's authorised share capital were removed from the Company's constitutional documents.

During the year 508,151 new ordinary shares of 1p (2009: 340,015 new ordinary shares of 1p) were issued following the exercise of options under the Executive Incentive Plan, and the Approved, Unapproved and SAYE Share Options Schemes. The consideration received was £589,000 (2009: £275,000). The holders of ordinary shares are entitled to receive dividends as declared or approved at General Meetings from time to time and are entitled to one vote per share at such meetings of the Company.

## 23. Share-based Payments

During the year, the Company operated the Unapproved Share Option Scheme, the Approved Share Option Scheme, the Long Term Incentive Plan, the Executive Incentive Plan and the Save As You Earn ("SAYE") Share Option Scheme as described below:

### Unapproved and Approved Share Option Schemes

Under these Schemes, options are granted to certain Executives and employees of the Group (excluding Executive Directors) to purchase shares in the Company at a price fixed at the average market value over the three days prior to the date of grant. For the options to vest, there must be an increase in earnings per share of at least 12% above the growth in the UK Retail Prices Index (RPI) over a three year period. Once vested, options must be exercised within 10 years of the date of grant.

### Executive Incentive Plan

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

The TSR target measures the Company's TSR performance against the FTSE Small Cap Index over a three year measurement period (commencing at the beginning of the financial year in which the awards are made). One hundred per cent of the shares on plans set up prior to 30 June 2008 will vest if the Company achieves an upper quartile performance, 30% of the shares vest at median performance and awards vest on a straight-line basis for performance in between. No shares vest if performance is below median.

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

### Long Term Incentive Plan

For awards granted after 30 June 2008 under this plan, vesting is dependent firstly on an earnings per share target. No awards will vest unless 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. One hundred per cent of the shares vest if the Company achieves an upper quartile performance, 25% of the shares vest at median performance and awards vest on a straight-line basis for performance in between. No shares vest if performance is below median.

### SAYE Option Scheme

This Scheme is open to all UK employees. Participants save a fixed amount of up to £250 per month for either three, five or seven years and are then able to use these savings to buy shares in the Company at a price fixed at a 20% discount to the market value at the start of the savings period. The SAYE options must ordinarily be exercised within six months of the completion of the relevant savings period. The exercise of these options is not subject to any performance criteria.



# Notes to the Consolidated Financial Statements

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

	Exercise period	Exercise price per share Pence	At 1 July 2009 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2010 Number
<b>Unapproved Share Option Scheme</b>							
14 September 2000	2003–2010	120.00	7,000	(7,000)	—	—	—
22 April 2002	2005–2012	153.50	6,500	(3,000)	—	—	3,500
11 April 2003	2006–2013	58.50	3,500	—	—	(1,000)	2,500
19 March 2007	2010–2017	289.00	26,139	(5,004)	—	—	21,135
2 April 2008	2011–2018	366.00	48,038	(3,000)	—	—	45,038
10 October 2008	2011–2018	397.00	33,500	—	—	—	33,500
30 March 2009	2012–2019	415.00	54,921	—	—	—	54,921
1 March 2010	2013–2020	456.00	—	—	52,854	—	52,854
			179,598	(18,004)	52,854	(1,000)	213,448
<b>Approved Share Option Scheme</b>							
2 April 2004	2007–2014	134.50	30,000	(9,000)	—	(2,000)	19,000
3 December 2004	2007–2014	180.00	16,667	—	—	—	16,667
5 April 2005	2008–2015	202.50	54,500	(18,500)	—	(5,000)	31,000
15 March 2006	2009–2016	252.00	112,000	(48,000)	—	(3,000)	61,000
19 March 2007	2010–2017	289.00	149,861	(39,196)	—	(5,000)	105,665
2 April 2008	2011–2018	366.00	69,962	—	—	(2,000)	67,962
10 October 2008	2011–2018	397.00	2,500	—	—	—	2,500
30 March 2009	2012–2019	415.00	23,079	—	—	—	23,079
1 March 2010	2013–2020	456.00	—	—	33,146	—	33,146
			458,569	(114,696)	33,146	(17,000)	360,019
<b>Executive Incentive Plan and Long Term Incentive Plan</b>							
14 September 2006	2009–2010	—	216,128	(216,128)	—	—	—
29 February 2008	2011–2012	—	152,472	—	—	—	152,472
19 November 2008	2011–2012	—	327,272	—	—	—	327,272
24 September 2009	2012–2013	—	—	—	277,758	—	277,758
			695,872	(216,128)	277,758	—	757,502
<b>SAYE Option Scheme</b>							
15 October 2004	2007–2009	124.00	69,025	(69,025)	—	—	—
18 October 2005	2008–2010	204.00	20,357	—	—	(947)	19,410
12 October 2006	2009–2013	195.74	118,794	(89,274)	—	(1,839)	27,681
17 October 2007	2010–2014	280.00	144,291	(518)	—	(4,211)	139,562
13 October 2008	2011–2015	343.00	115,440	(506)	—	(5,499)	109,435
12 October 2009	2012–2016	332.00	—	—	147,522	(9,529)	137,993
			467,907	(159,323)	147,522	(22,025)	434,081
<b>Total</b>			1,801,946	(508,151)	511,280	(40,025)	1,765,050
Weighted average exercise price			169.3p	63.4p	172.5p	276.2p	183.3p

### 23. Share-based Payments continued

Year ended 30 June 2009

	Exercise period	Exercise price per share Pence	At 1 July 2008 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2009 Number
<b>Unapproved Share Option Scheme</b>							
14 September 2000	2003–2010	120	7,000	—	—	—	7,000
22 April 2002	2005–2012	153.5	16,500	(10,000)	—	—	6,500
11 April 2003	2006–2013	58.5	9,500	(6,000)	—	—	3,500
19 March 2007	2010–2017	289	26,139	—	—	—	26,139
2 April 2008	2011–2018	366	48,038	—	—	—	48,038
10 October 2008	2011–2018	397	—	—	33,500	—	33,500
30 March 2009	2012–2019	415	—	—	54,921	—	54,921
			107,177	(16,000)	88,421	—	179,598
<b>Approved Share Option Scheme</b>							
2 April 2004	2007–2014	134.5	35,000	(5,000)	—	—	30,000
3 December 2004	2007–2014	180	26,667	(10,000)	—	—	16,667
5 April 2005	2008–2015	202.5	65,500	(11,000)	—	—	54,500
15 March 2006	2009–2016	252	152,000	(40,000)	—	—	112,000
19 March 2007	2010–2017	289	150,861	—	—	(1,000)	149,861
2 April 2008	2011–2018	366	70,962	—	—	(1,000)	69,962
10 October 2008	2011–2018	397	—	—	2,500	—	2,500
30 March 2009	2012–2019	415	—	—	23,079	—	23,079
			500,990	(66,000)	25,579	(2,000)	458,569
<b>Executive Incentive Plan and Long Term Incentive Plan</b>							
3 October 2005	2008–2009	—	205,140	(205,140)	—	—	—
14 September 2006	2009–2010	—	216,128	—	—	—	216,128
29 February 2008	2011–2012	—	152,472	—	—	—	152,472
19 November 2008	2011–2012	—	—	—	327,272	—	327,272
			573,740	(205,140)	327,272	—	695,872
<b>SAYE Option Scheme</b>							
15 October 2004	2007–2009	124	75,954	—	—	(6,929)	69,025
18 October 2005	2008–2010	204	75,980	(52,875)	—	(2,748)	20,357
12 October 2006	2009–2013	195.74	130,473	—	—	(11,679)	118,794
17 October 2007	2010–2014	280	157,860	—	—	(13,569)	144,291
13 October 2008	2011–2015	343	—	—	120,137	(4,697)	115,440
			440,267	(52,875)	120,137	(39,622)	467,907
Total			1,622,174	(340,015)	561,409	(41,622)	1,801,946
Weighted average exercise price			156.8p	80.7p	156.5p	236.9p	169.1p

The weighted average exercise price of options eligible to be exercised at 30 June 2010 was 240.3p (2009: 108p).

For options exercised during the year, the weighted average market price at the date of exercise was 443p (2009: 400p). The weighted average remaining contractual lives of options outstanding at the balance sheet date was four years (2009: four years).

Outstanding options on all Executive Incentive, Approved and Unapproved plans prior to 30 June 2007 were exercisable at 30 June 2010. No options issued under SAYE plans were exercisable at 30 June 2010.

## Notes to the Consolidated Financial Statements

### 23. Share-based Payments continued

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

The fair values for shares granted under the Unapproved, Approved and SAYE Option Schemes have been calculated using the Black-Scholes option pricing model. The fair values of shares awarded under the Executive Incentive Plan and the Long Term Incentive Plan have been calculated using a Monte Carlo simulation model which takes into account the market-based performance conditions attaching to those shares.

The assumptions used in calculating fair value are as follows:

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

Date of grant	24/9/09	19/11/08	29/2/08	14/9/06	3/10/05	9/10/04
Number of shares awarded	277,758	327,272	152,472	216,128	205,140	210,739
Share price at date of grant	404.10p	391.75p	386p	250.75p	251p	164p
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil
Expected life	3 years	3 years	3 years	3 years	3 years	3 years
Risk-free rate	1.91%	2.78%	4.20%	4.70%	4.21%	4.69%
Volatility	31%	29%	36%	36%	36%	36%
Dividend yield	2.25%	2.11%	1.94%	2.49%	2.07%	2.95%
Fair value per share	236p	221p	259p	162p	169p	105p

#### Unapproved and Approved Share Option Schemes

Date of grant	1/3/10	30/3/09	10/10/08	2/4/08	19/3/07	15/3/06	5/4/05	3/12/04	2/4/04	11/4/03
Number of shares awarded	86,000	78,000	36,000	129,000	188,000	177,000	181,000	30,000	147,000	124,000
Share price at date of grant	455p	415p	397p	367p	289p	252p	212p	179.32p	136p	59p
Exercise price	456p	415p	397p	366p	289p	252p	202.5p	180p	134.5p	58.5p
Expected life	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years
Risk-free rate	2.84%	2.46%	4.13%	4.08%	4.98%	4.32%	4.61%	4.53%	4.76%	4.12%
Volatility	33%	36%	36%	36%	36%	36%	36%	36%	36%	36%
Dividend yield	2.00%	2.03%	2.12%	2.04%	2.36%	2.15%	2.40%	2.61%	3.19%	7.04%
Fair value per share	124p	120p	124p	116p	92p	79p	69p	54p	40p	11p

#### Save as You Earn Option Scheme

Date of grant	12/10/09	13/10/08	17/10/07	12/10/06	18/10/05	15/10/04	3/4/03
Number of shares awarded	147,522	120,137	164,959	153,545	111,078	144,147	1,034,938
Share price at date of grant	445p	387p	357.5p	257.25p	255p	160p	54p
Exercise price	332p	343p	280p	195.74p	204p	124p	39p
Expected life							
— three year scheme	3.25 years	3.25 years	3.25 years	3.25 years	3.25 years	3.25 years	3.25 years
— five year scheme	5.25 years	5.25 years	5.25 years	5.25 years	5.25 years	5.25 years	5.25 years
— seven year scheme	7.25 years	7.25 years	7.25 years	7.25 years	n/a	n/a	n/a
Risk-free rate							
— three year scheme	1.87%	4.08%	5.07%	4.85%	4.25%	4.56%	3.78%
— five year scheme	2.55%	4.38%	5.04%	4.75%	4.31%	4.64%	4.14%
— seven year scheme	3.03%	4.58%	5.02%	4.65%	n/a	n/a	n/a
Volatility	33%	36%	36%	36%	36%	36%	36%
Dividend yield	2.04%	2.13%	2.09%	2.43%	2.04%	2.92%	7.63%
Fair value per share							
— three year scheme	134p	105p	130p	94p	88p	55p	14p
— five year scheme	156p	140p	147p	104p	101p	61p	14p
— seven year scheme	148p	155p	158p	110p	n/a	n/a	n/a

Expected volatility was determined by calculating the historical volatility of the Group's share price over its entire trading history.

### 23. Share-based Payments continued

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 2010 of £142,000 (2009: £220,000), of which £80,000 (2009: £6,000) related to vested options. The total charge to the Income Statement in respect of share-based payments was:

	2010 £'000	2009 £'000
Equity settled share-based transactions	817	643
Cash settled share-based transactions	93	98
	910	741

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

### 24. Analysis of Net Borrowings

	2010 £'000	2009 £'000
Bank loans	(37,033)	(40,498)
Finance leases and hire purchase contracts	(1,170)	(1,846)
Cash and cash equivalents	31,502	26,817
Net borrowings	(6,701)	(15,527)

### 25. Operating Leases

At the balance sheet date the Group had outstanding commitments for future minimum rentals payable under non-cancellable operating leases as follows:

	Land and buildings		Other assets		Total	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Within one year	1,200	1,146	1,512	1,624	2,712	2,770
Between one and five years	4,159	3,982	1,494	1,921	5,653	5,903
In five years or more	1,582	2,116	5	27	1,587	2,143
	6,941	7,244	3,011	3,572	9,952	10,816

### 26. Foreign Exchange Rates

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

	Closing rate at 30 June 2009	Average rate	Closing rate at 30 June 2010
Danish Krone	8.7572	8.4693	9.0983
Euro	1.1760	1.1379	1.2214
US Dollar	1.6520	1.5810	1.4961

# Notes to the Consolidated Financial Statements

## 27. Contingency

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

## 28. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

### 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 as described in note 1, 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.

#### Impairment of Receivables

The Group has estimated impairment of receivables by assessing recoverability of amounts due on a customer by customer basis. As described in note 21, credit risk is not highly concentrated with the exception of corporate veterinary practices and veterinary wholesalers. If the receivables due from one of these large customers proved to be irrecoverable then an additional impairment provision may be required.

#### Capitalisation of Development Costs

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

#### Contingency

Please refer to note 27.

## 29. Related Party Transactions

### Subsidiaries

The Group's ultimate Parent Company is Dechra Pharmaceuticals PLC. A listing of all principal subsidiaries is shown within the financial statements of the Company on page 123.

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

## 30. Off Balance Sheet Arrangements

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



# Company Balance Sheet

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At 30 June 2010

	Note	2010 £'000	2009 £'000
<b>Fixed assets</b>			
Investments	iii	114,188	94,366
		<b>114,188</b>	94,366
<b>Current assets</b>			
Debtors (includes amounts falling due after more than one year of £2,387,000 (2009: £21,792,000))	iv	20,726	45,925
Cash at bank and in hand		5,007	7
		<b>25,733</b>	45,932
Creditors: amounts falling due within one year	v	(49,775)	(42,536)
<b>Net current (liabilities)/assets</b>		<b>(24,042)</b>	3,396
Total assets less current liabilities		<b>90,146</b>	97,762
Creditors: amounts falling due after more than one year	v	(17,101)	(21,961)
<b>Net assets</b>		<b>73,045</b>	75,801
<b>Capital and reserves</b>			
Called up share capital	viii	661	656
Share premium account	ix	63,021	62,437
Hedging reserve	ix	(276)	(703)
Profit and loss account	ix	9,639	13,411
<b>Total equity Shareholders' funds</b>		<b>73,045</b>	75,801

The financial statements were approved by the Board of Directors on 7 September 2010 and are signed on its behalf by:



**Ian Page**

Director



**Simon Evans**

Director

Company number: 3369634

## Reconciliation of Movements in Shareholders' Funds

For the year ended 30 June 2010

	2010 £'000	2009 £'000
At start of period	75,801	78,219
Profit for the financial year	1,606	3,213
Movement in hedging reserve	427	(984)
Share-based payments charge	817	643
Dividends paid	(6,195)	(5,565)
New shares issued	589	275
At end of period	73,045	75,801

# Notes to the Company Financial Statements

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## (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 £1,606,000 (2009: £3,213,000).

### Investments

Investments held as fixed assets are stated at cost less any impairment losses. Where the consideration for the acquisition of a subsidiary undertaking includes shares in the Company to which the provisions of section 612 of the Companies Act 2006 apply, cost represents the nominal value of the shares issued together with the fair value of any additional consideration given and costs. Where investments are denominated in foreign currencies they are treated as monetary assets and revalued at each balance sheet date.

### Derivative Financial Instruments

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

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value of instruments that do not qualify for hedge accounting is recognised immediately in the profit and loss account.

The fair value of interest rate swaps, floors and ceilings, is the estimated amount that the Group would receive or pay to terminate the instrument at the balance sheet date. The fair value of forward exchange contracts and options is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

### Hedging

#### Cash Flow Hedges

Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised as profit or loss.

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

### Cash Flow Statement

As the ultimate holding company of the Dechra Pharmaceuticals PLC 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

## (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 23 of the Consolidated Financial Statements) and shareholdings.

### Transactions with Other Related Parties

There are no controlling Shareholders of the Company. There have been no material transactions with the Shareholders of the Company.

### Employee Benefits

#### (i) Pensions

The Company operates a Group stakeholder personal pension scheme for certain employees. Obligations for contributions are recognised as an expense in the profit and loss account as incurred.

#### (ii) Share-based Payment Transactions

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

The fair value of shares or options granted is recognised as an employee expense on a straight-line basis in the profit and loss account with a corresponding movement in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares or options (the vesting period). The fair value of the shares or options granted is measured using a valuation model, taking into account the terms and conditions upon which the shares or options were granted. The amount recognised as an expense in the profit and loss account is adjusted to take into account an estimate of the number of shares or options that are expected to vest together with an adjustment to reflect the number of shares or options that actually do vest except where forfeiture is only due to market-based conditions not being achieved.

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

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.

**Finance Lease Payments**

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

**Taxation**

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse and is provided in respect of all timing differences which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 "Deferred Tax".

**Financial Guarantee Contracts**

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

**(ii) Directors and Employees**

Total emoluments of Directors (including pension contributions) amounted to £1,501,000 (2009: £1,754,000). Information relating to Directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 51 to 59.

**(iii) Fixed Asset Investments**

	Shares in Subsidiary Undertakings £'000
Cost	
At 1 July 2009	94,366
Additions	19,822
At 30 June 2010	114,188
Net book value	
At 30 June 2010	114,188
At 30 June 2009	94,366

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

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



# Notes to the Company Financial Statements

## (iv) Debtors

	2010 £'000	2009 £'000
Amounts owed by subsidiary undertakings	18,319	44,519
Group relief receivable	1,658	561
Deferred taxation (see note vii)	574	667
Other debtors	63	40
Prepayments and accrued income	112	138
	<b>20,726</b>	<b>45,925</b>

Included in debtors are amounts of £574,000 (2009: £667,000) due after more than one year relating to deferred tax assets. Of the amounts owed by subsidiary undertakings, £2,387,000 is due after more than one year (2009: £21,125,000).

## (v) Creditors

	2010 £'000	Falling due within one year 2009 £'000
Bank loans and overdrafts (see note vi)	48,150	40,072
Finance lease obligations	44	39
Amounts due to subsidiary undertakings	503	444
Other creditors	—	14
Derivative financial instruments	383	977
Other taxation and social security	72	49
Accruals and deferred income	623	941
	<b>49,775</b>	<b>42,536</b>

In accordance with FRS 21, Events after the Balance Sheet Date, the proposed final dividend for the year ended 30 June 2010 of 7.20p per share has not been accrued for in these financial statements. It will be shown in the financial statements for the year ending 30 June 2011. The total cost of the proposed final dividend is £4,758,000.

	2010 £'000	Falling due after more than one year 2009 £'000
Bank loans (see note vi)	17,033	21,850
Finance lease obligations	68	111
	<b>17,101</b>	<b>21,961</b>

**(vi) Borrowings**

	2010 £'000	2009 £'000
Borrowings due within one year		
Bank overdraft	28,150	21,424
Bank loan	20,000	18,648
Finance lease obligations	44	39
	48,194	40,111
Borrowings due after more than one year		
Aggregate bank loan instalments repayable:		
between one and two years	5,000	5,000
between two and five years	12,500	15,000
after five years	—	2,500
	17,500	22,500
Arrangement fees netted off	(467)	(650)
	17,033	21,850
Finance lease obligations repayable:		
between one and two years	50	44
between two and five years	18	67
	68	111
Total borrowings	65,295	62,072

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 0.85% 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 2010.

The Company guarantees certain borrowings of other Group companies, which at 30 June 2010 amounted to £1,058,000 (2009: £1,696,000).

# Notes to the Company Financial Statements

## (vii) Deferred Tax

	£'000
At 1 July 2009	667
Transfer to profit and loss account	74
Transfer to equity	(167)
<b>At 30 June 2010 (included in debtors)</b>	<b>574</b>

The amounts provided for deferred taxation at 28% (2009: 28%) are as follows:

	2010 £'000	2009 £'000
Short-term timing differences	(574)	(667)

## (viii) Called up Share Capital

	Ordinary Shares of 1p each	
	£'000	No.
Issued share capital		
Allotted, called up and fully paid at 1 July 2009	656	65,581,924
New shares issued	5	508,151
<b>Allotted, called up and fully paid at 30 June 2010</b>	<b>661</b>	<b>66,090,075</b>

During the year, 508,151 new ordinary shares of 1p were issued following the exercise of options under the Executive Incentive Plan and the Approved, Unapproved and SAYE share option schemes. The consideration received was £589,000.

## Share Options

Details of outstanding share options over ordinary shares of 1p at 30 June 2010 under the various Group share option schemes are shown in note 23 to the Consolidated Financial Statements.

## (ix) Reserves

	Share premium account £'000	Hedging reserve £'000	Profit and loss account £'000
At 1 July 2009	62,437	(703)	13,411
New shares issued	584	—	—
Profit for the financial year	—	—	1,606
Movement in hedging reserve	—	427	—
Dividend (see note 9 to the Consolidated Financial Statements)	—	—	(6,195)
Share-based payments charge	—	—	817
<b>At 30 June 2010</b>	<b>63,021</b>	<b>(276)</b>	<b>9,639</b>

**(x) Subsidiary Undertakings**

Dechra Pharmaceuticals PLC is the ultimate parent and controlling party of the Group.

The principal subsidiary undertakings of the Company, all of which are wholly owned, are:

Company	Country of Incorporation	Principal Activity
<b>Operating Subsidiaries</b>		
Dechra Limited§	England & Wales	Wholesaler, marketer and manufacturer of pharmaceuticals; Wholesaler and marketer of veterinary products, instruments and equipment; Provider of veterinary laboratory services
Dechra Veterinary Products A/S	Denmark	Marketer and manufacturer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products Limited¶	England & Wales	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products OY¶	Finland	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products SAS¶	France	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products AS¶	Norway	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products SLU¶	Spain	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products AB¶	Sweden	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products BV¶	The Netherlands	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products LLC	USA	Distributor of veterinary products
<b>Other Subsidiaries</b>		
Anglian Manufacturing Chemists Limited#	England & Wales	Non-trading
Anglian Pharma Manufacturing Limited‡	England & Wales	Holding Company
Anglian Pharma Limited	England & Wales	Holding Company
Arnolds Veterinary Products Limited*	England & Wales	Non-trading
Cambridge Specialist Laboratory Services Limited†	England & Wales	Non-trading
Dales Pharmaceuticals Limited*	England & Wales	Non-trading
Dechra Investments Limited	England & Wales	Holding Company
Leeds Veterinary Laboratories Limited	England & Wales	Non-trading
National Veterinary Services Limited*	England & Wales	Non-trading
North Western Laboratories Limited	England & Wales	Holding Company
Veneto Limited	England & Wales	Holding Company

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

§ 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.

## Financial History

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
<b>Income statement</b>					
Revenue	369,369	349,964	304,371	253,803	232,471
Adjusted operating profit	28,190	24,971	19,142	13,876	12,312
Adjusted profit before taxation	26,056	23,406	16,853	12,646	11,044
Adjusted profit after taxation	19,437	16,759	12,185	8,866	7,557
Adjusted earnings per share — basic (pence)	29.50	25.61	20.81	16.89	14.71
— diluted (pence)	29.39	25.40	20.64	16.66	14.36
Dividend per share (pence)	10.50	9.10	8.25	7.50	6.24
Average number of employees	1,021	1,012	889	747	691
<b>Balance sheet</b>					
Non-current assets	88,044	97,605	99,652	18,828	13,567
Working capital	21,486	17,548	17,284	13,264	11,774
Current tax liabilities	(4,105)	(4,756)	(2,824)	(2,464)	(2,505)
Deferred tax liabilities	(12,496)	(14,184)	(15,316)	(147)	—
Net (borrowings)/cash	(6,701)	(15,527)	(26,997)	1,027	1,079
Shareholders' funds	86,228	80,686	71,799	30,508	23,915
<b>Cash flow</b>					
Cash flow from operating activities	26,662	27,557	16,053	14,328	13,997
Net interest paid	(2,208)	(1,851)	(2,802)	(1,169)	(1,218)
Tax paid	(6,124)	(3,227)	(3,041)	(2,895)	(2,618)
Capital expenditure	(2,721)	(3,634)	(2,112)	(5,325)	(1,492)
Acquisitions	—	—	(65,151)	(717)	—
Equity dividends paid	(6,195)	(5,565)	(4,420)	(3,595)	(2,777)
Financing	(4,626)	(8,843)	66,500	(3,124)	(97)
Changes in cash in period	4,788	4,437	5,027	(2,497)	5,795

# Shareholder Information

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## Financial Calendar

Interim Management Statement	5 November 2010
2010 Annual General Meeting	5 November 2010
Final Dividend Ex Div Date	10 November 2010
Final Dividend Record Date	12 November 2010
Final Dividend Payment Date	10 December 2010

## Annual General Meeting

The 2010 Annual General Meeting of the Company will be held at 3.00 pm on 5 November 2010 at Investec Bank plc, 2 Gresham Street, London, EC2V 7QP. The notice of meeting, which includes special business to be transacted at the Annual General Meeting, is included within the Circular accompanying this Annual Report, together with an explanation of the resolutions to be considered at the meeting.

## Registrar

Dechra's Registrar is Computershare Investor Services PLC.

Computershare should be contacted for any matters relating to your shareholding, including:

- Notification of change in name and address
- Enquiries about dividend payments
- Submission of proxy form for voting at the Annual General Meeting

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

Alternatively, Computershare can be contacted at

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

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/Investor/ShareDealing.asp](http://www-uk.computershare.com/Investor/ShareDealing.asp) or by telephoning 0870 703 0084.

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

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

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

## Warning to Shareholders

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

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

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

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

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

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



## Glossary

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

### Adjusted Operating Profit

Profit before interest, tax, amortisation of acquired intangibles and exceptional costs.

### Adjusted Pre-Tax Profit

Profit before tax, amortisation of acquired intangibles and exceptional costs.

### Bioequivalence

The demonstration that the proposed formulation has the same biological effects as the pioneer product to which it is being compared. This is usually demonstrated by comparing blood concentrations of the active over time, but can be compared using a clinical endpoint (e.g. lowering of a worm count) for drugs that are not absorbed or for which blood levels cannot be determined.

### Cortisol

A hormone which is made by the adrenal glands. Its production is increased during episodes of stress and it has many effects on the body. It helps regulate blood pressure, the immune system and helps balance the effect of insulin to keep the blood sugar at normal levels.

### Cushing's Disease

A condition caused by excess cortisol (see above) and is named after the physician who first described the condition in humans in the early twentieth century.

### EBITDA

Earnings before interest, tax, depreciation and amortisation.

### Exceptional Items

Significant items of income or expense which, due to their nature or the expected infrequency of the events giving rise to them, are shown separately on the face of the income statement to give a better understanding of underlying performance.

### FDA

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

### Hyperthyroidism

Occurs when the thyroid glands produce excessive amounts of thyroid hormone. This causes an increase in the animal's metabolism (the rate at which energy is burnt up).

### Intertrigo

Refers to a bacterial, fungal or viral infection that has developed at the site of broken skin due to inflammation of body folds. This infection is common in dogs with folds such as Pugs or Shar Peis.

### Malassezia

Yeasts that cause a secondary inflammatory skin disease. Malassezia is often found in otitis externa.

### MHRA

Medicines and Healthcare products Regulatory Agency; an executive agency of the Department of Health.

### NSAID

Non-Steroidal Anti-Inflammatory Drug; essentially drugs which relieve pain, swelling, stiffness and inflammation. *Equipalazone* is the leading NSAID for the treatment of musculoskeletal disorders in the horse.

### Otitis Externa

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

### Product Pipeline

This involves four stages which are as follows:

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

### Staphylococcal Infections

Communicable conditions caused by the *Staphylococcus* type of bacteria and generally characterised by pyoderma or the formation of abscesses.

### Surface Pyoderma

Pyoderma is the medical term used to denote infections of the skin caused by bacteria. Surface Pyoderma is a bacterial infection which is confined to the surface of the skin; one of the commonest types is known as Pyotraumatic Dermatitis (acute moist dermatitis, or "hot spots"). It is typified by localised itching, moist, reddened skin patches and ulcerated lesions.

Shareholder Notes



Our Business

Directors' Report:  
Our Performance

Directors' Report:  
Our Governance

Our Accounts

# Shareholder Notes

### Auditors

KPMG Audit Plc  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH

### Stockbroker & Financial Advisers

Investec Bank plc  
2 Gresham Street  
London  
EC2V 7QP

### Principal Bankers

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2nd Floor  
125 Colmore Row  
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### Lawyers

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Birmingham  
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### Registrars

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PO Box 82  
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Bridgwater Road  
Bristol  
BS13 8AE

### Financial PR

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B72 1RT

### Trademarks

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