



# Evolving veterinary medicine



**Dechra® Pharmaceuticals PLC**  
Annual Report and Accounts 2004

# Moving forward in a new world

## Dechra<sup>®</sup> Pharmaceuticals

### Development in an evolving market

## Summary of Results

	2004 Before exceptional items and goodwill amortisation	2003 Before exceptional items and goodwill amortisation		2004 After exceptional items and goodwill amortisation	2003 After exceptional items and goodwill amortisation	
Turnover	£186.8m	£179.3m	+4%	£186.8m	£179.3m	+4%
Operating profit	£9.2m	£8.2m	+13%	£8.5m	£7.1m	+20%
Profit before tax	£8.1m	£6.7m	+19%	£7.4m	£5.7m	+30%
Earnings per share	11.28p	9.39p	+20%	9.97p	7.52p	+33%
Dividend per share	4.70p	4.12p	+14%	4.70p	4.12p	+14%

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# Welcome to Dechra

## Our Business

An emerging pharmaceutical business, focused on the veterinary market.

## Our Strategic focus

- The continued development of our veterinary pharmaceutical portfolio.
- Increasing our pharmaceutical penetration into international markets.

## Pharmaceuticals

**Arnolds**

Arnolds Veterinary Products

Marketing and development of licensed branded pharmaceuticals to the veterinary profession worldwide. UK market leading supplier of veterinary instruments and equipment

**dp**

DALES PHARMACEUTICALS

Licensed manufacturer of human and veterinary pharmaceuticals for Arnolds and third party customers



National Veterinary Services

NationWide Laboratories  
Veterinary Clinical & Diagnostic Pathology

**vetcom**

**Handyscan**

**CSLS**

UK market leader in the supply of pharmaceuticals and added value services to the veterinary profession, including management information systems and consumer and internet services

Multi-disciplined independent commercial veterinary laboratories providing diagnostic and clinical pathology services

## Services



# Chairman's Statement

**“We expect to see the positive results from our hard work and investments made over the last three years beginning to feed through to sales for the Group in the current financial year.”**

## Introduction

The Group's progress in achieving its objectives of improving operational efficiencies, increasing margins, delivering new services and the development of its veterinary pharmaceutical portfolio is reflected in these results.

During the year our distribution business improved operating margins and returned to sales growth following a flat start. Our manufacturing operation significantly improved productivity and profitability and our own pharmaceutical sales increased by 16%. Further details are set out under the Chief Executive's Review.

Our strategic focus on the development of our veterinary pharmaceutical products is progressing extremely well. We have a portfolio of new products and range extensions under

development both in-house and through partnerships. These will provide us with new opportunities to extend our pharmaceutical range in the UK and on a global basis.

## Financial Highlights

Group turnover increased 4% from £179.3 million to £186.8 million.

Operating profit before exceptional items and goodwill amortisation increased by 13% to £9.2 million (2003: £8.2 million). Profit before tax, calculated on the same basis, improved by 19% to £8.1 million (2003: £6.7 million). Profit after exceptional items and goodwill amortisation was up 30% at £7.4 million (2003: £5.7 million).

Adjusted earnings per share (pre-exceptional items and goodwill amortisation) was 11.28 pence (2003: 9.39 pence), a 20% increase over 2003. The figure after exceptional items and goodwill amortisation was 9.97 pence (2003: 7.52 pence), an improvement of 33%.

Gross margin improved from 12.8% to 13.6% reflecting the continued ongoing improvements in product mix, productivity and operational efficiencies.

Cash flow during the period was strong, with operating cash flow being 125% of operating profit. Net debt reduced by 33% to £10.1 million against £15.0 million at June 2003, which is a credit to the strong focus on cash management over the last three years. Interest cover (before exceptional items and goodwill amortisation) remains healthy at 8.2 times.

Research and development spend in the period was slightly up on the previous year at £1.1 million reflecting investment in our veterinary pharmaceutical portfolio. We expect further increases during the current financial year as we plan for future growth.





Although capital expenditure in the period was relatively modest, we anticipate this to be higher in 2004/5 as we enhance our information technology platform within our distribution business and upgrade our injections facility at our UK manufacturing plant. Additionally, following submission later this year of our New Animal Drug Application to the United States Food and Drug Administration ("FDA") in the USA for Vetoryl®, a second milestone payment will become due under the terms of our agreement with Bioenvision Inc.

#### **Dividend**

To reflect the solid improvement in the Group's profitability and to underpin the Board's confidence in the Group's strategic development, the Directors are recommending a final dividend of 3.15 pence per share. This, together with the interim dividend paid of 1.55 pence per share, makes a total for the year of 4.70 pence per share, an increase of 14% on 2003. The total dividend is covered 2.4 times by profit after taxation but before exceptional items and goodwill amortisation.

The final dividend, which is subject to shareholder approval at our Annual General Meeting to be held on Thursday 21 October 2004, will be paid on 24 November 2004 to shareholders on the Register as at 29 October 2004.

#### **People**

On behalf of the Board and shareholders I would like to thank all the Group's employees for their hard work, continued focus, and for working with the management team to improve the productivity, profitability and efficiency of our business.

I would also like to welcome all new staff who joined us during the year.

#### **Current Trading and Prospects**

The strong performance of the Group has continued into the first two months of this new financial year and results are in line with internal budgets.

As I reported earlier, the development of our veterinary pharmaceutical portfolio is progressing extremely well. We are on schedule to launch at least two new products in the UK, and one in Europe during this new financial year and we have taken significant steps towards licensing Vetoryl® in the USA.

In addition, our partnerships, alliances and collaboration agreements offer a number of opportunities to extend our portfolio. As shareholders are aware, the research and development of any specialist pharmaceutical product can take a number of years. However, we expect to see the positive results from our hard work and investments made over the last three years beginning to feed through to sales for the Group in the current financial year.

We remain confident that we will be able to report further progress when we announce our Interim Results in March 2005.

#### **Michael Redmond**

Chairman  
7 September 2004





# Chief Executive's Review

**“A number of exciting new pharmaceutical development opportunities are being explored as we increase our focus on developing Dechra into a global veterinary pharmaceutical business.”**

## Pharmaceuticals

### Product Development & Licensing

The most important strategic growth opportunity for Dechra is the development of our veterinary pharmaceutical programme. All major products in the development pipeline are on target with a number of licence applications submitted and pending approval.

A further strategy is to extend the market presence of our own pharmaceuticals into North America, Mainland Europe, Australasia and Japan.

In December 2003, we completed a European marketing agreement with Janssen Animal Health. The initial five year partnership allows Janssen full marketing and distribution rights to

Felimazole® and Vetoryl® in Mainland Europe with Dechra retaining all intellectual property and manufacturing rights. Janssen's extensive knowledge of the European market will allow the launch to be quicker and more cost-effective than we could have achieved independently.

The full EU licence for Felimazole®, gained through the mutual recognition procedure, has now been received, all European territories having approved the application. The product will be launched during Autumn 2004 in the key territories of France and Germany with all other countries being rolled out in 2005.

We have successfully completed all remaining UK based trials for Vetoryl®. Dossier submission for EU approval is anticipated in this financial year. Additionally, the FDA has granted Vetoryl® an expedited review, which we believe is a very positive indication of the clinical need for the product within the USA. The North American market is ten times larger than the UK, and with the high level of awareness of Cushing's Disease (for which Vetoryl® is the preferred treatment), the product's introduction represents a significant growth opportunity for the Group. We are at an advanced stage in the appointment of a US national to head up our North American marketing drive.

We have also identified partners to license, market and distribute both Vetoryl® and Felimazole® in Canada and Australia, with contracts currently being negotiated.





The Equine Laminitis project which we commenced with The Royal Veterinary College in 2002 has produced some encouraging early results. With these positive indications, we are now entering the next stage of development. Trials of a needle-free injection system via a partnership with The Medical House PLC are also currently being undertaken. Initial compliance has been successful.

We have recently submitted dossiers for three new products and two range extensions for approval to the UK assessors, the Veterinary Medicines Directorate ("VMD"). The range extensions are a 30mg Vetoryl® capsule targeted specifically at small dogs, which is currently sold on a "specials" order basis, together with the introduction of a 2.5mg Felimazole® tablet for cats, which will offer increased flexibility and dosing options. We anticipate receiving marketing approval for the majority of these products in time for a UK launch in the current financial year.

A number of other exciting new pharmaceutical development opportunities are being explored as we increase our focus on developing Dechra into a global veterinary pharmaceutical business.

### Sales & Marketing

The focus by Arnolds on sales of licensed veterinary pharmaceutical products has been reflected in its results. 70% of turnover is now pharmaceutical, with the balance being instruments and consumables.

Our key successes have been the continued market penetration of our lead products, Equipalazone®, Vetoryl® and Felimazole®, each of which now exceed sales of £1 million per annum.

Equipalazone®, which has dominated the equine non-steroidal market for over ten years, grew sales by 11%. In the last twelve months, Vetoryl® sales increased by 39% and Felimazole® by 132%. Both products have achieved in excess of 80% market penetration of companion animal veterinary practices and we anticipate that the number of animals being prescribed the products will continue to grow.

In response to the continuing growth of our own pharmaceuticals and imminent new product launches, we have decided to restructure the Arnolds business. The instruments, consumables and capital goods part of the business has been consolidated into one business unit, and the Pharmaceuticals business will become an independent business unit. The roles of the marketing team will change to 'product managers' who will be responsible for marketing and managing a particular product on a global basis giving them increased responsibility and accountability.

The Arnolds website is being re-developed to provide easy access to the latest information and technical data on our key products.



# Chief Executive's Review continued

**“Our key successes have been the continued penetration of our lead products, Equipalazone®, Vetoryl® and Felimazole®, all of which now exceed sales of £1 million per annum.”**

## Pharmaceuticals continued

### Manufacturing

The restructuring of the management team at the beginning of the year and the focus on high value profitable business and operational improvements have resulted in the successful turnaround in Dales' performance.

Investment in state-of-the-art capsule production equipment provided significant improvements in yields, output and product quality which subsequently improved supply and, more importantly, customer service levels.

In June 2004, we achieved our £1 million per month sales target and we anticipate ongoing run rates to be around this level during the current financial year.

Dales will continue to provide the technical pharmaceutical input to the Group Regulatory function in support of new marketing authorisation applications (product licences) and in the renewal process for existing licences.







## Services

### Distribution

Although market conditions were competitive, National Veterinary Services ("NVS") produced an encouraging performance with a 17% increase in operating profits, whilst maintaining its 42% share of the veterinary market. Our recently introduced own branded 'Valu' range of disposable products, which offers quality at a highly competitive price, is running at annualised sales in excess of £400,000. We expect sales to increase over the coming twelve months as a result of our continued focus on these high margin products.

The full implementation of the automatic order consolidation and weight checking system, completed in the third quarter, has improved overall efficiency by increasing customer order picking rates and removing the need for full manual checking. NVS has been the first to apply this technology in the veterinary sector and we expect to see the full benefits of this investment in this new financial year.

During the next twelve months, NVS will upgrade its internal IT systems, which will provide state-of-the-art functionality delivering future operational and customer benefits.

To better service and meet the needs of our customers in the South East, we have split our Swanley operation into two depots, one in Swanscombe and the other in Caxton Hill. In Scotland, we have opened a distribution centre in

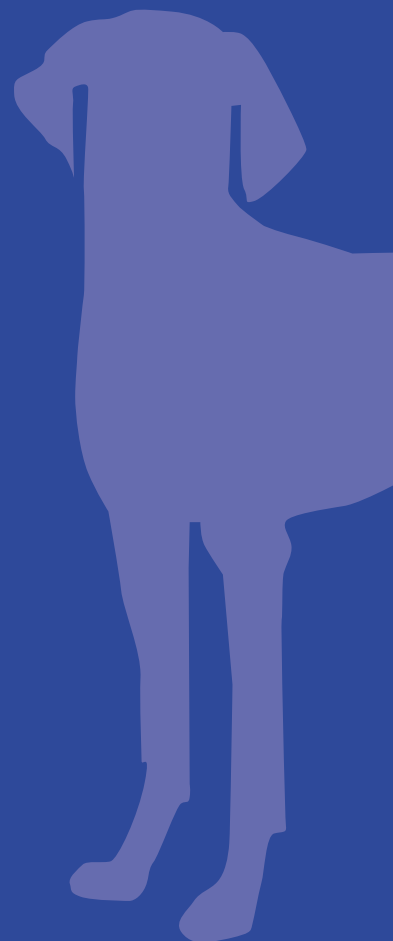
Hamilton, south of Glasgow, with a dedicated service team to focus on developing relationships with the veterinary practices across an important region that offers NVS substantial growth opportunities.

### Information Technology

We continue to develop new services to offer the veterinary practitioner. Through our *Alternative Analysis* tool, we can study the spend of a particular practice and recommend mutually financially beneficial products. 340 practices benefited from this service last year.

In partnership with our customers, NVS territory managers can also exploit the *NVS Indices*, which analyses key data to indicate the profitability of a practice by product category and identify areas of potential growth and improvement.

Our other established products *Vetcom@*, *Windows*, *Handyscan* and *Vet2Pet@* continue to perform well.



# Chief Executive's Review continued

**“NVS produced an encouraging performance with a 17% increase in operating profits, whilst maintaining its 42% share of the veterinary market.”**

## Services continued

### Laboratories

Our Laboratory Services business has benefited from Group strengths which have contributed to the excellent results achieved by NationWide Laboratories (“NWL”) and Cambridge Specialist Laboratory Services (“CSLS”). During the period, they grew their customer base and added 18 new clinical & diagnostic services to their range.

The implementation of improved workflow systems has provided substantial operational efficiencies and enhanced our already high levels of customer service.

During the current financial year, NWL will be targeting key territories where it has identified significant opportunities to expand its business, in particular with its specialist same day service.

### Roadshows

Working with the veterinary profession, we have, over the course of the year, carried out a number of conferences, forums and symposiums. This has enabled us to market Group services, educate veterinarians on our specialist veterinary pharmaceutical portfolio and contribute to the continued professional development of our veterinary clients. We have also been involved in debates on the future of the sector, identifying the best way forward to assist practices to develop to their full potential.





### People

Dechra currently employs 647 people. During the year we further strengthened operational management across the Group. This has had a beneficial effect in particular at Dales, our manufacturing facility, where the experience and skills brought into the business with the appointments of a new Finance Director, Quality Director and Manufacturing Manager have contributed to its much improved performance.

In July 2004, we appointed a new Finance Director at Arnolds. Stephen Whitehouse, who previously held the position, will concentrate on his role as Group Company Secretary.

The Group recognises the importance of staff development. Each business is responsible for coordinating an appropriate career development programme which includes internal and external training courses suitable to meet individual staff requirements.

### Summary

Following a very challenging period last year, the results achieved this year are a tribute to the hard work and dedication of everybody in the Group.

We will continue to work together to exploit our market leading position within our businesses whilst taking advantage of the opportunities to develop our veterinary drug portfolio both in the UK and internationally.

### Ian Page

Chief Executive  
7 September 2004



# Financial Review

**“I am pleased that the results of our efforts are seen in record profits this year together with a substantial reduction in net debt.”**

## Introduction

The focus over the last year, from a financial perspective, has been to lift operating margins in all of our businesses and achieve an improvement in working capital management and cash flow.

I am pleased that the results of our efforts are seen in record profits this year together with a substantial reduction in net debt.

## Operating Results

The Group achieved a profit before tax, exceptional items and goodwill amortisation of £8.1 million, an increase of 19.5% compared to last year calculated on the same basis.

The results after exceptional items and goodwill amortisation are summarised on the inside front cover.

Group turnover improved by 4.2% although, after a flat first half of the year, it was encouraging to see sales in the second half increase by 8.6%. This reflects improved market conditions, the continued success of our branded pharmaceutical product portfolio and significantly better productivity at our manufacturing operation.

Gross margin is up from 12.8% to 13.6% reflecting ongoing improvements in operational efficiency and productivity at all of our businesses.

Operating costs include a charge of £215,000 in respect of the Executive Incentive Plan in accordance with UITF17 (revised) although there is no cash flow impact on the Group.

Product development spend increased from £1.0 million in 2003 to £1.1 million.

Overall, Group operating margin improved from 4.55% to 4.92%.

## Net Interest Charge

The improved cash flow performance this year resulted in a 20.6% reduction in the interest charge from £1.4 million to £1.1 million, despite interest rates rising during the period.

Interest was covered 8.2 times (2003: 5.8 times) by operating profit before exceptional items and goodwill amortisation.

## Taxation

The current year tax charge on profit before exceptional items and goodwill amortisation is 30.5%, the slightly higher than standard rate being due to expenditure not deductible for tax purposes. There is also a net prior year credit of £150,000 which has brought the overall rate for the year down to 28.6%.

## Earnings Per Share and Dividend

Adjusted earnings per share (before exceptional items and goodwill amortisation) was 11.28p (2003: 9.39p), an increase of 20.1%.

The proposed final dividend is 3.15p, making a total for the year of 4.70p, a 14% uplift over last year. The total dividend is covered 2.4 times by profit after taxation but before exceptional items and goodwill amortisation.

## Capital Expenditure

Following significant investments over the last two years, capital expenditure during the year was relatively low at £666,000. The major new investment in the period was in an automatic weight checking system at our distribution business.

Capital expenditure is likely to increase over the coming financial year, with planned investments in a new IT system at our distribution business and an upgrade of the injections department at our manufacturing facility.

The second milestone payment of US\$750,000 in respect of the acquisition of the rights to Vetoryl® in North America (announced on 23 May 2003) is likely to become due in the coming financial year



following submission of our New Animal Drug Application to the FDA.

### Cash Flow and Net Debt

The Group achieved an operating cash flow of £10.6 million, a 61.7% increase on last year's figure of £6.5 million. This reflects continued improvements over the last three years.

Operating cash flow represented 125% of operating profit compared to 92% last year.

Net debt showed a very healthy 32.5% reduction from £15.0 million to £10.1 million.

### Balance Sheet and Shareholders' Funds

Shareholders' funds increased to £10.2 million during the year reflecting the retained profit.

Working capital decreased from £11.1 million to £10.0 million. Stock turn improved from 9.0 times to 11.5 times. Trade debtor days improved from 45 days to 44 days although debtors increased in absolute terms due to high sales levels in June. Trade creditor days were 53 (2003: 58 days).

Gearing at 30 June 2004 was 50% (measured as net debt divided by total assets before net debt). However, if goodwill previously written off to reserves of £30.2 million is added back, gearing falls to 20%.

### Total Shareholder Return

The graph on page 23 shows the total shareholder return measured against the Small Cap index from the period since flotation in September 2000. It is pleasing to note that, apart from a brief period last year, the Group has consistently outperformed the index.

### International Financial Reporting Standards ("IFRS")

The Group will be required to report for the first time under IFRS for the year ending 30 June 2006. Work has already been progressing to identify the changes that will be required.

The principal areas where there may be a significant impact on the reported results of the Group are:

#### Share options

The fair value of share options issued will be required to be charged to the profit and loss account over the relevant measurement period.

#### Research and development expenditure

Certain development expenditure is required to be capitalised. Current Group policy is to write off such expenditure as incurred.

A further update on the potential impact of IFRS will be given in the next Annual Report.

### Capital Policy

It is the Company's policy to maintain an appropriate balance between equity financing and debt financing so as to reduce the weighted average cost of capital of the Company but without over-gearing.

### Treasury Policy

Overall treasury policy is set by the Board and monitored by the Group Finance Director.

The Company does not speculate on short-term interest rate or exchange rate movements.

All of the Group's borrowings, with the exception of hire purchase contracts, are currently at floating rates.

Foreign exchange exposure is hedged naturally as far as possible by matching receipts and payments in the relevant foreign currency. To this end, the Group maintains Euro and US Dollar accounts. Unmatched foreign currency exposure is hedged at the discretion of the Group Finance Director. The foreign currency exposure relating to future outstanding milestone payments in respect of the acquisition of the rights to Vetoryl® in North America of US\$750,000 and US\$3 million (which becomes due once the marketing authorisation is granted by the FDA) has, as far as possible, been hedged by foreign currency swap options (see note 18).

No borrowings are denominated in foreign currencies.

### Liquidity Management

The Group's cash position is monitored on a daily basis by the Group Finance Director. The Group has available overdraft and revolving credit facilities from the Bank of Scotland for its day-to-day working capital requirements.

Further information on Financial Instruments is shown in note 18 to the financial statements.



### Simon Evans

Group Finance Director  
7 September 2004



# Board of Directors



## Executive Directors

### 01 Ian Page

#### Chief Executive

Aged 43, Ian joined the Group's principal trading subsidiary NVS at its formation in 1989 and was appointed Managing Director in 1998. 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.

### 02 Simon Evans, B.Com, ACA

#### Group Finance Director

Aged 40, 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.

### 03 Ed Torr

#### Development Director

Aged 44, Ed joined NVS as Sales Director in 1997 and was part of the MBO team. In 1998, he was appointed Managing Director of Arnolds and Dales, but relinquished this role in 2004 to focus on his Main Board responsibilities; specifically the strategic development of the Group's licensed veterinary pharmaceutical portfolio in key international territories. Prior to joining the Group, he worked within the animal healthcare sector for a number of companies including ICI, Wellcome and Alfa Laval Agri.



## Non-Executive Directors

### 04 Michael Redmond

#### Non-Executive Chairman

Aged 60, 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. He is currently also a Non-Executive Director and Chairman at Microscience Ltd, Synexus Ltd and Arakis Ltd.

### 05 Malcolm Diamond, MBE

#### Senior Non-Executive Director

Aged 55, Malcolm joined the Board in August 2000 prior to the Group's flotation in September of the same year. Previously Malcolm was Chief Executive of Trifast plc, a position he held for 18 years. He was the principal driver of Trifast's strategic direction change from a UK-based business to a global entity. Currently, he is advising a number of private businesses on their strategic planning, management development programmes and marketing initiatives. Other Non-Executive Directorships include Armida Ltd, Centurion Electronics plc and Unicorn Asset Management's AIM2VCT Fund. Malcolm is also Executive Chairman at CW0 Ltd.

### 06 Neil Warner, B.A, FCA, MCT

#### Non-Executive Director

Aged 51, 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) 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.

### 07 Stephen Whitehouse, FCCA

#### Company Secretary

Aged 56, Stephen has been with the Group since 1989 and was part of the MBO team. He was Finance Director at Arnolds and was appointed Company Secretary at flotation in 2000. Prior to this, he worked for twelve years at GKN Sankey and ten years at British Oxygen.



# Corporate Governance

## Revised Combined Code

The revised Combined Code was issued by the Financial Reporting Council on 23 July 2003 and will become effective for the Company in respect of the year ending 30 June 2005 and subsequently. The rest of this report is therefore based on the existing Combined Code.

During the year, the Board has undertaken a review of the requirements of the revised Combined Code and intends to comply in all respects except where it requires that the Chairman should not be a member of the Audit Committee. The Board considers that the Chairman has valuable knowledge and experience to offer the Audit Committee. He is considered to be completely independent of executive management. For this reason, the Chairman will continue to sit on the Audit Committee. The Audit Committee also comprises two other independent Directors (see page 15).

## Compliance with the Combined Code

In the opinion of the Directors, the Company has complied throughout the period with Section 1 of the existing code.

## Board of Directors

The details of the Board of Directors are shown on pages 12 and 13 and in the Directors' Report on page 26. There is a clear division of responsibilities between the Chairman and Chief Executive. The Board consists of an independent Non-Executive Chairman, two other independent Non-Executive Directors and three Executive Directors (including the Chief Executive).

At least two members of the Board are required to retire from office by rotation at the Annual General Meeting subject to all Directors having submitted themselves for re-election every three years.

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 the exercise of their independent judgement, and are not dependent on the Company for their primary source of income or paid by the Company in any capacity other than as a Non-Executive Director. In addition, no Non-Executive Director has previously been a senior manager of the Company, and has not participated in the Company's incentive bonus scheme or pension scheme.

The Board considers M.M. Diamond to be the Senior Independent Director.

## Conduct of Board Meetings

The Board normally has eleven Board Meetings per annum including two meetings where the full year and half year results are dealt with. Strategy meetings are convened as required with at least one meeting per year. In addition, the Board has three standing committees — the Audit, Remuneration and Nominations committees, the details of which are shown on pages 15 and 16.

The Board has reserved to itself powers relating to matters which it considers significant to the Group's business, operational and financial risks. These include the approval of corporate policies, plans and budgets, acquisitions and disposals of companies or businesses; major investment and financial decisions; appointments to the Board; and major management or organisational changes.

At all Board meetings an agenda is established reflecting the Directors' responsibilities. This comprises reports from the Chief Executive, Finance Director, Development Director and Operating Company Directors, reports on the performance of the business, major items of strategic planning, investments and significant policy issues. The Board considers at least annually the strategic plans of the Group and individual businesses. Periodically, the Directors receive presentations from management concerning key areas of the Group's operations.

The attendance at Board meetings by all members was a minimum of 96%.

Full year and interim results are reviewed by the Audit Committee and the Board and approved prior to publication. Other price sensitive information may be published only with the approval of the Board of Directors.



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 Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. Any question of the removal of the Company Secretary is a matter for the Board as a whole.

The Board has developed a process of reviewing its effectiveness, led by the Chairman, which is based on a combination of written reviews by individual Directors, discussion with the Chairman and review by the Board as a whole. This process has been undertaken during the year.

All newly appointed Directors receive an induction programme to the Company including Corporate Governance training and background to the Company. All Directors are encouraged to keep up to date on all matters relevant to the Group and attend briefings and seminars as appropriate.

### **Board Committees**

The Board has three standing committees — the Audit, Remuneration and Nominations Committees. The Board has reviewed membership of these committees and has confirmed its view that it is appropriate that all the non-executives should participate as members of these committees, so that they are fully involved in monitoring the governance issues affecting the Company, including executive remuneration, succession planning and risk management. There is therefore no provision for fixed periods of membership of the committees, as recommended by the 2003 FRC Code. The Board also considers that the Chairman should continue his membership of the Audit, Remuneration and Nominations Committees in that he has a wide experience and knowledge gained through his directorships with other companies.

#### **The Audit Committee**

Members: N.W. Warner (Chairman), M. Redmond, and M.M. Diamond.

The Audit Committee met twice during the year with 100% attendance. The terms of reference of the Audit Committee include the following responsibilities:

- To monitor the integrity of the financial statements of the Company, reviewing the annual and interim 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 16 and 17 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 external auditors. The Committee makes recommendations to the Board on the appointment of the external 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.
- To make recommendations to the Board on the requirement for an internal audit function.

#### **The Remuneration Committee**

Members: M.M. Diamond (Chairman), M. Redmond, and N.W. Warner.

The Directors consider that the Company has fully complied with Schedule A of the Directors' Remuneration Report Regulations 2002.



# Corporate Governance continued

The Remuneration Committee met twice during the year, with 100% attendance. It sets the pay and benefits of the Executive Directors, and approves their terms and conditions and bonus schemes, having regard to performance. A report on the remuneration of Directors appears on pages 18 to 24.

The terms of reference of the Remuneration Committee include the following responsibilities:

- To make recommendations to the Board on executive remuneration packages.
- To determine targets for any performance related pay schemes.
- To determine the policy for and scope of any pension arrangements for Executive Directors.
- To approve contracts of employment with Executive Directors.
- To determine the terms of Executive Directors' compensation packages.
- To ensure that shareholders should be invited to approve the policy set out in the Directors' Remuneration Report at the Company's Annual General Meeting.

## **The Nominations Committee**

Members: M. Redmond (Chairman), M.M. Diamond, and N.W. Warner.

The Nominations Committee normally meets once per year and oversees the plans for management succession, recommends appointments and reappointments to the Board and considers the structure and composition of the Board generally.

## **Internal Control**

The Directors are responsible for the Company's system of internal control, which 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. A 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 particularly against material misstatement or loss.

The Company has a well-established framework of internal financial and operational control for identifying, evaluating and managing the risks faced by the Company.

In complying with the Internal Control requirements of the Combined Code, the Directors have taken guidance from the Institute of Chartered Accountants in England and Wales publication "Internal Control: Guidance for Directors on the Combined Code" ("the Turnbull Guidance"). As a result, the Board prepares and updates a quarterly thorough review of relevant risk areas and systems of internal control. The review is structured by business area and key risk strategy. The current review was prepared to 30 June 2004.

The Company's key systems of internal control include:

### **Business Plans**

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

### **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. Operating expenditure is controlled within each business with approval levels for such expenditure determined by the individual businesses.

### **Management Structure**

Executive management are responsible for the identification, evaluation and management of the significant risks applicable to their business areas. The risks are assessed on a periodic basis and may be associated with a variety of internal and external sources.

The Company and its business units operate control procedures designed to ensure complete and accurate accounting of financial transactions, and to limit the loss of assets due to fraud. Measures taken include physical controls, segregation of duties in key areas, and internal reviews and checks.

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

### **Risk Control**

Responsibility for monitoring the Group's system of internal control rests with the Board. It is assisted by the Audit Committee, which reviews the interim 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.

The Board has reviewed the effectiveness of the Group's internal control systems from the period from 1 July 2003 to the date of approval of the financial statements by means of the updated progress report and internal controls action plan.

The Board reviews the operation and effectiveness of its control assessment on a regular basis.

### **Investor Relations**

A rolling programme of meetings between institutional shareholders and Executive Directors is held throughout the year, in addition to the annual and interim results presentations and the Annual General Meeting, to foster mutual understanding of 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. All members of the Board usually attend the Annual General Meeting. The Chairmen of the Audit Committee, Remuneration Committee and Nominations Committee will normally be available to answer shareholders' questions at that meeting. Notice of the meeting, together with the Annual Report and financial statements, are posted to shareholders not fewer than 23 days prior to the date of the Annual General Meeting. The package 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. Where 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.

At the Annual General Meeting there is an opportunity, following the formal business, for informal communications between investors and Directors.

### **Going Concern**

After consideration of budgets and other financial information, the Directors are satisfied that the Group is in a sound financial position with adequate resources to continue in operation for the foreseeable future. For this reason, the Group's financial statements have been prepared on the basis that the Group is a going concern.



# Directors' Remuneration Report

This report is presented in accordance with the relevant provisions of the Combined Code on Corporate Governance (the "Combined Code") and the Directors' Remuneration Report Regulations 2002 ("the regulations"). The regulations require the Company's auditors to report on certain "auditable" information required to be included in the Directors' Remuneration Report. The audited information has therefore been separately highlighted.

The Board is responsible for the Group's remuneration policy and setting non-executive fees, although the task of determining and monitoring the remuneration packages of Executive Directors has been delegated to the Remuneration Committee.

## Remuneration Committee

The Remuneration Committee is responsible for ensuring that the remuneration packages provided to Executive Directors are appropriate to individual levels of experience, responsibility and performance, are consistent with the Company's remuneration policy and are in line with the principles of good corporate governance. The committee considers remuneration packages payable to executives at comparable companies when setting remuneration of Executive Directors and also considers pay structures around the Group.

The Remuneration Committee comprises solely Non-Executive Directors: M.M. Diamond, M. Redmond and N.W. Warner. The committee usually meets twice a year and is chaired by M.M. Diamond. During the year the Group Chief Executive attended all of these meetings in order to assist on matters concerning remuneration of other senior executives within the Group. The Chief Executive was not present during the part of the meetings where his own remuneration was discussed.

The committee did not seek any external advice during the year but will do so in future if considered appropriate and has done in the past, most recently in respect of the Executive Incentive Plan discussed below.

## Remuneration Policy

The Company's policy on Directors' remuneration for the forthcoming year is that its remuneration packages should be capable of attracting, rewarding and retaining Executive Directors whilst being arrived at responsibly and fairly, when compared with similar organisations.

The remuneration packages of Executive Directors are structured to include a performance related element linked to corporate and individual objectives. Both the Executive Incentive Plan and the Executive Bonus Scheme are performance related. Bonuses are not pensionable.

Remuneration for Non-Executive Directors is limited to salary only with no performance related element.

The Company's policy on the remuneration of all Directors is reviewed annually.

Once remuneration has been approved by the Board, the Chairman, where considered appropriate, will consult the Company's principal shareholders regarding remuneration issues. This remuneration policy is included in the Annual General Meeting agenda for shareholder approval.

## Components of the Remuneration Package

### Basic Salary

The basic salary of each Executive Director is determined taking into account the responsibilities and performance of the individual together with independently furnished information on rates for similar jobs in comparable industry sectors. Details of



salaries, bonuses and benefits paid to Executive Directors are included in the table headed "Summary of Remuneration" shown on page 23.

Non-Executive Directors have a service contract for an initial 12 month period which is thereafter terminated by either party giving 12 months' notice. Participation in share option schemes, bonus schemes or entitlement to a pension is not allowed under the service contract.

### **Benefits in kind**

Executive Directors receive other benefits, including the use of a fully expensed car, medical cover and life insurance. This provides an overall package that is competitive with similar companies.

### **Pensions**

The scheme is a funded, contributory, Inland Revenue approved money-purchase occupational pension scheme and is contracted into the State Earnings Related Pension Scheme.

### **Share Option Schemes**

The Company operates the Approved Share Option Scheme, the Unapproved Share Option Scheme together with a savings related share option scheme. Executive Directors are entitled to participate in the Company savings related share option ("SAYE") scheme and the Executive Incentive Plan discussed below. However, Executive Directors are not entitled to participate in either the Approved Share Option Scheme or the Unapproved Share Option Scheme. The table on page 24 provides an analysis of outstanding SAYE Directors' Share Options.

### **Executive Incentive Plan**

Following its approval by shareholders at the Annual General Meeting on 23 October 2003, the Company operates the Executive Incentive Plan for Executive Directors and other key employees.

The Executive Incentive Plan aims to provide a clear link between the remuneration of Executive Directors and the creation of value for shareholders by rewarding Executive Directors for the Company's performance in terms of Total Shareholder Return (TSR).

Under this plan the Remuneration Committee makes awards to senior executives of shares in the Company, with vesting to individuals being subject to the achievement of performance targets. The first target is based on TSR over a three year measurement period (commencing at the beginning of the financial year in which the awards are made) expressed as an annual percentage return over that period. The TSR is calculated and compared to the TSR's of all other companies in the FTSE Small Cap Index for the entire measurement period. If the Company is ranked in the top quartile of the list of TSR's achieved by the companies in the FTSE Small Cap Index over the measurement period, all of the shares over which an award had been made will vest.

If the TSR of the Company is ranked in the second quartile then the number of shares which will vest is determined by reference to a straight-line graph which ensures that 30% of the shares over which the award has been made will vest on the achievement of a TSR that places the Company at the bottom of the second quartile and all of the shares will vest on an achievement of a TSR that places the Company at the top of the second quartile.

If the TSR of the Company is ranked in the third or fourth quartile then none of the shares over which an award had been made will vest and the relevant participant will not be entitled to any of the shares.

In addition to the TSR performance target, no award will vest unless, in the opinion of the Remuneration Committee, the underlying financial performance of the Company has been satisfactory over the measurement period.



# Directors' Remuneration Report continued

Initial awards under the Plan were made during the year and these are shown on page 24. The measurement period for these awards commenced on 1 July 2003 and will end on 30 June 2006. Future awards will be capped at a maximum of 50% of basic salary in any one year, with the measurement period commencing at the start of the financial year in which they are made.

## Executive Share Plan

All awards previously made under the Executive Share Plan have now lapsed. It is not intended that any further awards will be made under this scheme since the Executive Incentive Plan is now in place and is considered to provide a better means of incentivising Executive Directors to increase shareholder value.

## Executive Bonus Scheme

This scheme rewards Executive Directors for achieving operating efficiencies and profitable growth in the relevant year by reference to challenging, but achievable operational performance targets derived at the beginning of the financial year. The bonus is calculated on formulae which are determined each year by the Remuneration Committee.

In the case of I.D. Page, S.D. Evans and E.T.W. Torr, the bonus target for 2004 was based solely on Group profit performance.

Executive bonuses for the year ended 30 June 2004 and for the forthcoming year are payable on the achievement of Group performance targets as set out below.

	Bonus payable for achievement of profit target (% of Salary)
I.D. Page	30%
S.D. Evans	25%
E.T.W. Torr	25%

In addition, each further 1% achieved above 105% of target attracts a further bonus of 1% of salary capped at a maximum additional 10% of annual salary.

I.D. Page was also granted a discretionary bonus of 2.5% of basic salary for the year ended 30 June 2004.

## Contracts of Service

Each Executive Director has a service contract with the Company which contains details regarding remuneration, restrictions and disciplinary matters.

Executive Directors are appointed on contracts terminable by the Company on not more than 12 months' notice and by the Director on 6 months' notice.

Non-Executive Directors are appointed for an initial term of one year, continuing thereafter until terminated by either party giving not less than 12 months' notice.

Details of Directors' service contracts and notice periods are set out below:

Name	Commencement	Notice Period	
		(Director)	(Company)
M. Redmond	25 April 2001	12 months	12 months
I.D. Page	23 August 2000	6 months	12 months
S.D. Evans	23 August 2000	6 months	12 months
E.T.W. Torr	23 August 2000	6 months	12 months
M.M. Diamond	23 August 2000	12 months	12 months
N.W. 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 of termination has been given by either party, lawfully terminate the service contract by paying to the Director an amount equal to his salary entitlement for the unexpired period of notice together with an amount representing the fair value of any other benefits to which the Director is contractually entitled for the unexpired period of notice (subject in either case to a deduction at source of income tax and national insurance contributions).

In the event that the service contract is terminated partway through any financial year, the Director shall not be entitled to any bonus in respect of that financial year.

Non-Executive Directors' compensation entitlements are confined to 12 months' remuneration entitlement.



# Directors' Remuneration Report continued

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

Name	Salary	Bonus	Benefits
M. Redmond	12 months	n/a	n/a
I.D. Page	12 months	Nil	12 months
S.D. Evans	12 months	Nil	12 months
E.T.W. Torr	12 months	Nil	12 months
M.M. Diamond	12 months	n/a	n/a
N.W. 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 and pension arrangements.

In an appropriate case the Directors would have a 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 awards of compensation for loss of office or any other reason have been made to any person, whether a Director or a former Director during the year.

No compensation payments were made to Executive or Non-Executive Directors during the year.

## Directors' Shareholdings

The beneficial interests of the Directors in office at 30 June 2004 and their families in the share capital of Dechra Pharmaceuticals PLC at 30 June 2004 was as follows:

Shareholdings	Ordinary Shares 2004	Ordinary Shares 2003
M. Redmond	35,000	35,000
I.D. Page	592,167	592,167
S.D. Evans	663,000	663,000
E.T.W. Torr	342,414	342,414
M.M. Diamond	5,000	5,000
N.W. Warner	2,206	—

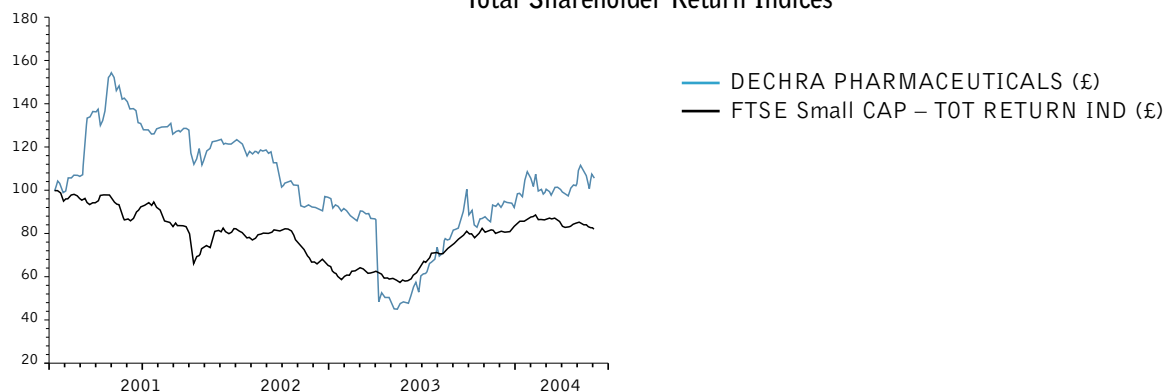
On 1 July 2004, S.D. Evans acquired a further 6,131 ordinary shares following the exercise of his option under the SAYE Scheme.

## Total Shareholder Return

The graph on the following page shows the total shareholder return performance of the Company over the past four years compared with the total shareholder return over the same period for the FTSE Small Cap Total Return Index. The FTSE Small Cap Index is considered to be an appropriate index as the Company is a constituent of that index.



### Total Shareholder Return Indices



The information shown above relates to the four-year period since the Company's flotation in September 2000.

#### 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	Total 2004 £'000	Total 2003 £'000
<b>Executive Directors</b>					
I.D. Page (Chief Executive)	149	48	18	<b>215</b>	160
S.D. Evans	102	26	8	<b>136</b>	110
E.T.W. Torr	95	24	15	<b>134</b>	109
M.D. Annice (resigned 23 October 2003)	27	–	4	<b>31</b>	97
<b>Non-Executive Directors</b>					
M. Redmond (Chairman)	40	–	–	<b>40</b>	40
M.M. Diamond	22	–	–	<b>22</b>	22
N.W. Warner	20	–	–	<b>20</b>	3
	<b>455</b>	<b>98</b>	<b>45</b>	<b>598</b>	<b>541</b>



# Directors' Remuneration Report continued

## Executive Incentive Plan

Awards made under the Executive Incentive Plan are as follows:

	Exercise Dates	2004 Number of shares	At 30 June 2003 Number of shares
I.D. Page	2006–2007	120,000	–
S.D. Evans	2006–2007	80,000	–
E.T.W. Torr	2006–2007	80,000	–

## SAYE Scheme

Directors' entitlements under the SAYE Scheme are as follows:

	Exercise Dates	Exercise Price	At 1 July 2003 and 30 June 2004 Number of shares
I.D. Page	July 2008	39p	42,115
S.D. Evans	July 2004	158p	6,131
E.T.W. Torr	July 2004	158p	2,452
	July 2005	129p	4,418

On 1 July 2004, S.D. Evans exercised his entitlement under the SAYE Scheme and acquired 6,131 ordinary shares at a price of 158p per share. The market price at the time was 154p.

The middle market price for the Company's shares on 30 June 2004 was 149<sup>1</sup>/<sub>2</sub>p and the range of prices during the year was 87<sup>1</sup>/<sub>2</sub>p to 150p.

## Pension Entitlement

All Executive Directors were members of the Dechra Holdings Limited money purchase 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 2004 £000	Contributions 2003 £000
I.D. Page	43	18	17
S.D. Evans	40	12	12
E.T.W. Torr	44	11	11
M.D. Annice (resigned 23 October 2003)	44	3	10
		44	50

By order of the Board

### M.M. Diamond

Chairman Remuneration Committee

7 September 2004

# Social, Ethical and Environmental Responsibilities

The Board recognises the need to review and manage risks to the short and long term value of the Company arising from social, ethical and environmental matters.

The Board has received adequate information to review these risks and has not identified any risks to the business that affect its future value.

## Environmental Policy

Dechra Pharmaceuticals PLC acknowledges the importance of good environmental controls. It is the Company's policy to comply with and exceed environmental legislation currently in place, adopt responsible environmental practices and be committed to minimising the impact of its operations on the environment.

This is being achieved within our manufacturing unit by complying with and bettering effluent discharge standards into local water supplies which is monitored by Yorkshire Water Authority and standard operating procedures which ensure contaminated waste is disposed of only under strict controls. Exhaust air is fully filtered before discharge.

The Group complies with the Waste Packaging Obligations Regulations and maintains a modern fleet of low CO<sub>2</sub> emission diesel vehicles, which are subject to a leasing arrangement and are replaced every three years.

During the year, the Group carried out a full audit of all its properties for asbestos. All necessary action has been taken to comply with new laws governing the control of asbestos.

Dechra will continue to review its environmental controls and encourage its own staff, suppliers and customers to achieve similar high standards.

## Health and Safety Policy

Dechra Pharmaceuticals PLC 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 promoting of a policy of Health and Safety at work, to ensure the care and well-being of its employees and on-site visitors.

Each division has a Health and Safety Committee comprising representatives from both management and employees. Employee representatives are elected by a ballot of the whole workforce. The Committees meet on a regular basis to carry out a rolling review of risk assessments as well as investigating any concerns raised by individual employees. Each site has at least one person continuously trained in Health and Safety legislation.

A full Health and Safety Report is presented at Divisional Board Meetings on a quarterly basis. Executive Directors are present at these meetings. These reports are summarised for the Main Board also on a quarterly basis.

The Finance Director is the nominated Executive Director responsible for Health and Safety policy.



# Directors' Report

The Directors present their Annual Report and audited financial statements for the year ended 30 June 2004.

## Principal Activity

The Group manufactures and sells pharmaceuticals and also markets and sells veterinary equipment and related services including computer systems, predominantly to the UK veterinary market, but also to overseas markets. The Company acts as a holding company to all Group subsidiaries.

## Share Capital

Details of the changes in share capital are shown in note 20 to the financial statements.

## Results and Dividends

The results for the year are set out on page 30. The Directors recommend the payment of a final dividend of 3.15p per share which, if approved by shareholders, will be paid on 24 November 2004 to shareholders registered at 29 October 2004. An Interim Dividend of 1.55p per share was paid on 7 April 2004, making a total dividend for the year of 4.70p (2003: 4.12p). The total dividend payment is £2,396,000 (2003: £2,093,000). A retained profit of £2,685,000 (2003: £1,740,000) is transferred to reserves.

## Business Review and Future Developments

A review of the Group's activities during the year and likely future developments are dealt with in the Chairman's Statement, Chief Executive's Review and Financial Review.

## Directors

The Directors who served during the year were as follows:

M. Redmond (Chairman)  
I.D. Page  
S.D. Evans  
E.T.W. Torr  
M.D. Annice (resigned 23 October 2003)  
M.M. Diamond  
N.W. Warner

The interests of the Directors in the share capital of the Company are shown in the remuneration report on pages 18 to 24.

In accordance with the articles of association, M. Redmond and E.T.W. Torr retire by rotation and, being eligible, offer themselves for re-election.

## Political and Charitable Contributions

The Group made no political or charitable contributions during the year.

## Employees

It is the Group's policy to encourage employee involvement as the Directors consider that this is essential for the successful running of the business. The Group keeps employees informed of performance, developments and progress by way of regular team briefing sessions and notices.

It is the Company's policy to provide equal recruitment and other opportunities for all employees, regardless of sex, religion, race or disability. The Group gives full consideration to applications for employment from disabled people, where they adequately fulfil the requirements of the job.

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 operates a SAYE share option scheme in which all employees of the Group can participate.

### Research and Development

The Group has a structured research and development programme with the aim of identifying and bringing to market new pharmaceutical products. The expenditure on this activity for the year ended 30 June 2004 was £1,124,000 (2003: £997,000).

### Suppliers

The Company does not adhere to any code of practice regarding the payment of suppliers but seeks to agree the terms of payment with suppliers prior to placing business and it is the Company's policy to settle liabilities by the due date. At 30 June 2004, the Group had an average of 75 days (2003: 68 days) purchases outstanding in creditors. The Company had an average of Nil days (2003: Nil days) purchases outstanding in creditors.

### Substantial Shareholdings

As at 13 August 2004, the Company is aware of the following material interests representing 3% or more of the issued share capital in the Company.

	No. of Shares	% of Shares Held
Insight Investment	4,932,548	9.67
Hermes Pension Management	4,575,132	8.97
Threadneedle Asset Management	3,632,404	7.12
Platinum Fund Managers	2,536,800	4.97
Montanaro Investment Management	1,950,000	3.82
3i Asset Management	1,790,000	3.51
Legal & General Investment Management	1,661,008	3.26

### Auditors

A resolution to reappoint KPMG Audit Plc as auditors is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

### S.P. Whitehouse

Secretary  
7 September 2004

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





# Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss for that period. In preparing the 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company or Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

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

We have audited the financial statements on pages 30 to 47. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report and the Directors' Remuneration Report. As described on page 28, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 14 to 17 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and the unaudited part of the Directors' Remuneration Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## Basis of audit opinion

We conducted our audit in accordance with the Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

## Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2004 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

## KPMG Audit Plc

Chartered Accountants  
Registered Auditor  
Birmingham  
7 September 2004



# Consolidated Profit and Loss Account

For the year ended 30 June 2004

	Note	2004 Before exceptional items and goodwill amortisation £'000	2004 Exceptional items and goodwill amortisation (note 3) £'000	Total £'000	2003 Before exceptional items and goodwill amortisation £'000	2003 Exceptional items and goodwill amortisation (note 3) £'000	Total £'000
<b>Turnover</b>	2	<b>186,843</b>	–	<b>186,843</b>	179,309	–	179,309
Cost of sales		<b>(161,422)</b>	–	<b>(161,422)</b>	(156,319)	–	(156,319)
<b>Gross profit</b>		<b>25,421</b>	–	<b>25,421</b>	22,990	–	22,990
Distribution costs		<b>(7,588)</b>	–	<b>(7,588)</b>	(7,252)	–	(7,252)
Administrative expenses		<b>(8,649)</b>	<b>(691)</b>	<b>(9,340)</b>	(7,576)	(1,061)	(8,637)
<b>Operating profit</b>		<b>9,184</b>	<b>(691)</b>	<b>8,493</b>	8,162	(1,061)	7,101
Net interest payable and similar charges	4	<b>(1,124)</b>	–	<b>(1,124)</b>	(1,416)	–	(1,416)
<b>Profit on ordinary activities before taxation</b>	5	<b>8,060</b>	<b>(691)</b>	<b>7,369</b>	6,746	(1,061)	5,685
Tax on profit on ordinary activities	8	<b>(2,309)</b>	<b>21</b>	<b>(2,288)</b>	(1,960)	108	(1,852)
<b>Profit on ordinary activities after taxation</b>		<b>5,751</b>	<b>(670)</b>	<b>5,081</b>	4,786	(953)	3,833
Dividends	9			<b>(2,396)</b>			(2,093)
<b>Retained profit for the financial year</b>				<b>2,685</b>			1,740
Earnings per ordinary share							
<b>Basic</b>	10	<b>11.28p</b>	<b>(1.31p)</b>	<b>9.97p</b>	9.39p	(1.87p)	7.52p
<b>Diluted</b>	10	<b>11.12p</b>	<b>(1.29p)</b>	<b>9.83p</b>	9.36p	(1.86p)	7.50p

A statement of movements on reserves is given in note 21 to the financial statements.

All amounts relate to continuing operations.

There were no recognised gains and losses other than shown above.

# Balance Sheets

As at 30 June 2004

	Note	Group		Company	
		2004 £'000	2003 £'000	2004 £'000	2003 £'000
<b>Fixed assets</b>					
Intangible assets	11	5,174	5,730	–	–
Tangible assets	12	5,224	5,572	–	–
Investments	13	–	–	4,608	4,608
		<b>10,398</b>	11,302	<b>4,608</b>	4,608
<b>Current assets</b>					
Stocks	14	16,979	17,296	–	–
Debtors	15	32,889	28,001	48,718	55,004
		<b>49,868</b>	45,297	<b>48,718</b>	55,004
<b>Creditors:</b> amounts falling due within one year	16	<b>(45,172)</b>	(42,420)	<b>(15,912)</b>	(20,373)
<b>Net current assets</b>		<b>4,696</b>	2,877	<b>32,806</b>	34,631
<b>Total assets less current liabilities</b>		<b>15,094</b>	14,179	<b>37,414</b>	39,239
<b>Creditors:</b> amounts falling due after more than one year	16	<b>(4,763)</b>	(6,708)	<b>(4,759)</b>	(6,639)
<b>Provisions for liabilities and charges</b>	19	<b>(174)</b>	–	–	–
<b>Net assets</b>		<b>10,157</b>	7,471	<b>32,655</b>	32,600
<b>Capital and reserves</b>					
Called up share capital	20	510	510	510	510
Share premium account	21	26,784	26,783	26,784	26,783
Merger reserve	21	1,720	1,720	–	–
Profit and loss account	21	(18,857)	(21,542)	5,361	5,307
<b>Total equity shareholders' funds</b>		<b>10,157</b>	7,471	<b>32,655</b>	32,600

The financial statements were approved by the Board of Directors on 7 September 2004 and are signed on its behalf by:

  
I.D. Page Director

  
S.D. Evans Director



# Reconciliation of Movements in Shareholders' Funds

For the year ended 30 June 2004

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
At 1 July 2003	7,471	5,749	32,600	28,862
Profit for the financial year	5,081	3,833	2,450	5,830
Dividends	(2,396)	(2,093)	(2,396)	(2,093)
New shares issued	1	732	1	6
Decrease in shares to be issued	-	(750)	-	(5)
At 30 June 2004	10,157	7,471	32,655	32,600

# Consolidated Cash Flow Statement

For the year ended 30 June 2004

	Note	2004 £'000	2003 £'000
<b>Net cash inflow from operating activities</b>	23	<b>10,576</b>	6,542
<b>Returns on investment and servicing of finance</b>			
Interest received		584	62
Interest paid		(1,580)	(1,400)
Interest element of finance lease rentals		(16)	(46)
Net cash outflow for returns on investment and servicing of finance		(1,012)	(1,384)
<b>Taxation</b>			
Corporation tax paid		(1,864)	(2,066)
<b>Capital expenditure</b>			
Purchase of tangible fixed assets		(569)	(1,553)
Purchase of intangible fixed assets		(5)	(784)
Sale of tangible fixed assets		28	1,113
Net cash outflow for capital expenditure and financial investment		(546)	(1,224)
<b>Acquisitions and disposals</b>			
Acquisitions of subsidiary undertakings		–	32
<b>Equity dividends paid</b>		<b>(2,192)</b>	(2,078)
<b>Cash inflow/(outflow) before financing</b>		<b>4,962</b>	(178)
<b>Financing</b>			
Shares issued		1	–
Term loans repaid		(1,954)	(2,842)
Loan stock repaid		(500)	–
Capital element of finance lease payments		(135)	(568)
Net cash outflow from financing		(2,588)	(3,410)
Increase/(decrease) in cash in the period		2,374	(3,588)
Bank overdraft at 30 June 2003		(5,698)	(2,110)
Bank overdraft at 30 June 2004		(3,324)	(5,698)
<b>Reconciliation of Net Cash Flow to Movement in Net Debt</b>			
Increase/(decrease) in cash during the period		2,374	(3,588)
Debt repayments		2,454	2,842
Repayment of finance leases		135	568
Change in net debt resulting from cash flows		4,963	(178)
New finance leases		(11)	(75)
Other non-cash changes		(74)	(7)
<b>Movement in net debt in the period</b>		<b>4,878</b>	(260)
<b>Net debt at 1 July 2003</b>	24	<b>(14,988)</b>	(14,728)
<b>Net debt at 30 June 2004</b>	24	<b>(10,110)</b>	(14,988)





# Notes to the Financial Statements

## 1. Accounting Policies

The following accounting policies have been applied in dealing with items which are considered material in relation to the Group and parent Company's financial statements.

### Basis of Preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

### Consolidation Principles

The consolidated financial statements incorporate those of Dechra Pharmaceuticals PLC and its subsidiary undertakings made up to 30 June.

The acquisition method of accounting has been adopted and the results of subsidiary undertakings acquired are included from the date of acquisition.

In accordance with Section 230(4) of the Companies Act 1985, no separate profit and loss account is presented for the Company. The profit for the year dealt with in the accounts of the Company was £2,450,000 (2003: £5,830,000).

### Turnover

Turnover represents cash and credit sales excluding value added tax and net of discounts allowed and is recognised to the extent that all obligations relating to that turnover have been fulfilled in accordance with FRS5 Application Note G.

### Tangible Fixed Assets and Depreciation

Depreciation is calculated so as to write off the cost less estimated residual value of tangible fixed assets over their estimated useful lives. The principal rates used are as follows:

Short leasehold property	Period of the lease on a straight-line basis
Fixtures, fittings and equipment	10–33 $\frac{1}{3}$ % on a straight-line basis
Motor vehicles	25% on a straight-line basis

### Investments

Investments held as fixed assets are stated at cost less any impairment losses. Where the consideration for the acquisition of a subsidiary undertaking includes shares in the Company to which the provisions of section 131 of the Companies Act 1985 apply, cost represents the nominal value of the shares issued together with the fair value of any additional consideration given and costs. In the Group balance sheet the excess of the fair value of the shares issued as consideration over their nominal value is credited to a merger reserve.

### Goodwill and Intangible Assets

Goodwill relating to the acquisition of companies and businesses up to 30 June 1998 was written off immediately against reserves. On a subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging the amount of any related goodwill not written off through the profit and loss account, including any previously taken direct to reserves. Purchased goodwill arising subsequent to 30 June 1998 is capitalised and amortised to nil over its estimated useful economic life.

The cost of intangible assets acquired, which are capitalised only if separately identifiable, is amortised over estimated useful lives.

### Leased Assets

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Rental payments are apportioned between the finance element, which is charged to the profit and loss account, and the capital element, which reduces the outstanding lease obligations.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

### Stocks

Stocks are valued at the lower of cost and net realisable value. The cost of work in progress and finished goods includes an appropriate proportion of attributable overheads.

### Research and Development

Research and development expenditure is written off as it is incurred.

### Derivative Financial Instruments

Short term debtors and creditors that meet the definitions of a financial asset or liability respectively have been excluded from the numerical disclosures as permitted by FRS13 "Derivatives and Other Financial Instruments Disclosures", as detailed in note 18.

### Arrangement Fees

Arrangement fees incurred on the raising of loans are written off over the expected life of the relevant loan.

### Employee Share Schemes

Apart from SAYE options, where shares or share options are granted to employees at below market value, the difference between the issue price and the market price is charged to the profit and loss account over the performance period in accordance with UITF17 (revised).

Due regard is made to the likelihood of the performance criteria being achieved over the performance period with the charge to the profit and loss account being adjusted accordingly.

### 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 FRS19 "Deferred Tax".

### Pensions

The Group operates a defined contribution pension scheme. The amount charged to the profit and loss account represents contributions payable to the Scheme in the accounting period.

The assets of the Scheme are held separately from those of the Group in an independently administered fund.

## 2. Analysis of Turnover by Geographical Region

Destination	2004 £'000	2003 £'000
UK	184,411	176,804
Rest of the world	2,432	2,505
	<b>186,843</b>	179,309

The Directors consider that all turnover is derived from a single class of business. The origin of all turnover was in the UK.



# Notes to the Financial Statements continued

## 3. Exceptional Items and Goodwill Amortisation

	2004 £'000	2003 £'000
Exceptional Items — reorganisation and rationalisation costs	130	500
Goodwill amortisation	561	561
<b>Total exceptional items and goodwill amortisation</b>	<b>691</b>	<b>1,061</b>

The reorganisation and rationalisation costs relate to the integration of the Group's manufacturing operations onto a single site at Skipton, together with other costs of reorganising the Group's trading operations.

## 4. Net Interest Payable and Similar Charges

	2004 £'000	2003 £'000
Bank loans and overdrafts	1,599	1,316
Amortisation of arrangement fees	88	97
Other loans	5	19
Finance charges payable on finance leases and hire purchase contracts	16	46
<b>Total interest payable</b>	<b>1,708</b>	<b>1,478</b>
Bank deposit and other interest receivable	(584)	(62)
<b>Net interest payable and similar charges</b>	<b>1,124</b>	<b>1,416</b>

## 5. Profit on Ordinary Activities Before Taxation is stated after charging/(crediting):

	2004 £'000	2003 £'000
Research and development	1,124	997
Depreciation of owned assets	872	1,044
Depreciation of assets held under finance leases	116	204
Amortisation of goodwill	561	561
Loss/(profit) on disposal of tangible fixed assets	4	(100)
Operating lease rentals:		
land and buildings	748	753
plant and machinery	795	404
Audit fees (including £38,000 for the Parent Company (2003: £27,000))	80	75
Other payments to the auditors for non-audit services	216	115
Analysis of total fees payable to the Group auditors:		
	2004 £'000	2003 £'000
Audit services	80	75
Further assurance services	11	17
Tax compliance services	61	33
Tax advisory services	126	25
Other services	18	40
	<b>296</b>	<b>190</b>

## 6. Remuneration of Directors

Details of the remuneration, shareholdings, share options and pension contributions of the Directors are included in the Directors' Remuneration Report on pages 18 to 24.

## 7. Employees

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

	2004 Number	2003 Number
Manufacturing	154	140
Distribution	318	308
Administration	171	167
	<b>643</b>	615

The costs incurred in respect of these employees were:

	2004 £'000	2003 £'000
Wages and salaries	9,576	8,748
Social security costs	852	755
Other pension costs	287	281
	<b>10,715</b>	9,784

## 8. Tax on Profit on Ordinary Activities

### a) Tax charge for the year

	2004 £'000	2003 £'000
Current taxation		
UK Corporation tax charge	2,454	1,866
Adjustments in respect of prior periods	(347)	(63)
Total current tax charge for the year	<b>2,107</b>	1,803
Deferred taxation		
Origination and reversal of timing differences	(16)	77
Adjustments in respect of prior periods	197	(28)
Total deferred tax charge for the year	<b>181</b>	49
Tax on profit on ordinary activities	<b>2,288</b>	1,852
Tax credit included above attributable to exceptional operating items	<b>21</b>	108

# Notes to the Financial Statements continued

## 8. Tax on Profit on Ordinary Activities continued

### b) Factors affecting the tax charge for the current period

The current tax charge is lower than (2003: higher than) the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are explained below:

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation	7,369	5,685
Current tax charge at 30% (2003: 30%)	2,211	1,705
Effects of		
Permanent differences:		
– goodwill amortisation	168	168
– depreciation on assets not eligible for tax allowances	22	18
– disallowable expenses	37	52
	227	238
Timing differences:		
– capital allowances (in excess of)/less than depreciation	(65)	14
– other short term timing differences	81	(91)
	16	(77)
Adjustments to tax charge in respect of previous periods	(347)	(63)
Total current tax charge	2,107	1,803

## 9. Dividends

	2004 £'000	2003 £'000
Interim paid 1.55p per share (2003: 1.37p)	790	691
Final proposed 3.15p per share (2003: 2.75p)	1,606	1,402
	2,396	2,093

## 10. Earnings per Share

Earnings per ordinary share have been calculated by dividing the profit on ordinary activities after taxation for each financial year by the weighted average number of ordinary shares in issue during the year.

	2004 pence	2003 pence
Basic earnings per share after exceptional items and goodwill amortisation	9.97	7.52
Effect of exceptional items	0.21	0.77
Basic earnings per share before exceptional items	10.18	8.29
Effect of goodwill amortisation	1.10	1.10
Adjusted earnings per share	11.28	9.39
Diluted earnings per share	9.83	7.50
Effect of exceptional items	0.21	0.76
Diluted earnings per share before exceptional items	10.04	8.26
Effect of goodwill amortisation	1.08	1.10
Adjusted diluted earnings per share	11.12	9.36

## 10. Earnings per Share continued

	2004 £'000	2003 £'000
The calculation of basic and diluted earnings per share is based upon:		
Earnings for basic and diluted earnings per share calculations	5,081	3,833
Exceptional items	109	392
Earnings for basic and diluted earnings per share calculations before exceptional items	5,190	4,225
Goodwill amortisation	561	561
Earnings for adjusted and adjusted diluted earnings per share	5,751	4,786
	2004 No.	2003 No.
Weighted average number of ordinary shares for basic and adjusted earnings per share	50,975,214	50,975,037
Impact of share options	725,830	164,117
Weighted average number of ordinary shares for diluted and adjusted diluted earnings per share	51,701,044	51,139,154

## 11. Intangible Fixed Assets

	Goodwill £'000	Patent rights £'000	Total £'000
Cost			
At 1 July 2003	5,608	784	6,392
Additions	–	5	5
<b>At 30 June 2004</b>	<b>5,608</b>	<b>789</b>	<b>6,397</b>
Amortisation			
At 1 July 2003	662	–	662
Charge for the year	561	–	561
<b>At 30 June 2004</b>	<b>1,223</b>	<b>–</b>	<b>1,223</b>
<b>Net book value</b>			
<b>At 30 June 2004</b>	<b>4,385</b>	<b>789</b>	<b>5,174</b>
At 1 July 2003	4,946	784	5,730

Goodwill is being amortised over 10 years, being the Directors' estimate of the useful economic life.

During the year ended 30 June 2003, the Group entered into an agreement with Bioenvision, a company based in the USA, to acquire the exclusive marketing and development rights of Trilostane for animal health applications in the USA and Canada. Trilostane is the active ingredient in the Group's branded product Vetoryl®. The first stage payment of £784,000 including legal costs was made in 2003 and has been capitalised as a patent right. Depending upon certain milestones being achieved, the Group is committed to making two further payments. The second stage payment of US\$750,000 becomes payable on the submission of a New Animal Drug Application to the US Food and Drug Administration ("FDA") and the final payment of US\$3,000,000 becomes payable on the FDA granting a marketing authorisation for Vetoryl®. Once a marketing authorisation has been granted and the patent right can be applied commercially, the patent rights will begin to be amortised. The additions in the year ended 30 June 2004 represent legal costs.





# Notes to the Financial Statements continued

## 12. Tangible Fixed Assets

Group	Freehold Land £'000	Short Leasehold Land and Buildings £'000	Motor Vehicles £'000	Plant and Fixtures £'000	Total £'000
Cost					
At 1 July 2003	13	2,607	667	5,800	9,087
Additions	–	23	2	641	666
Disposals	–	(3)	(73)	(481)	(557)
<b>At 30 June 2004</b>	<b>13</b>	<b>2,627</b>	<b>596</b>	<b>5,960</b>	<b>9,196</b>
Depreciation					
At 1 July 2003	–	359	441	2,715	3,515
Charge for the year	–	155	147	686	988
Disposals	–	(3)	(47)	(481)	(531)
<b>At 30 June 2004</b>	<b>–</b>	<b>511</b>	<b>541</b>	<b>2,920</b>	<b>3,972</b>
<b>Net book value at 30 June 2004</b>	<b>13</b>	<b>2,116</b>	<b>55</b>	<b>3,040</b>	<b>5,224</b>
Net book value at 1 July 2003	13	2,248	226	3,085	5,572
Leased assets					
Net book value of assets held under finance leases:					
At 30 June 2004	–	–	32	149	181
At 1 July 2003	–	–	118	122	240
				<b>2004</b>	2003
				<b>£'000</b>	£'000
Contracted Capital Commitments (tangible fixed assets)				<b>63</b>	202

## 13. Fixed Asset Investments

Company	Shares in Subsidiary Undertakings £'000
Cost and net book value	
At 1 July 2003 and 30 June 2004	4,608

A list of principal subsidiary undertakings is given in note 27.

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.

#### 14. Stocks

	2004	2003
Group	£'000	£'000
Raw materials and consumables	1,271	1,385
Work in progress	539	435
Finished goods and goods for resale	15,169	15,476
	<b>16,979</b>	17,296

#### 15. Debtors

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Trade debtors	31,337	26,765	–	–
Amounts owed by subsidiary undertakings	–	–	46,639	53,541
Group relief receivable	–	–	1,816	1,371
Deferred taxation	–	7	82	–
Other debtors	890	859	35	31
Prepayments and accrued income	662	370	146	61
	<b>32,889</b>	28,001	<b>48,718</b>	55,004

#### 16. Creditors

	Falling Due within One Year			
	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Bank loans and overdrafts	5,278	7,652	13,805	18,333
Unsecured loan stock	–	500	–	500
Hire purchase and finance leases	69	128	–	–
Trade creditors	33,205	29,224	–	–
Amounts due to subsidiary undertakings	–	–	10	20
Other creditors	246	226	–	–
Corporation tax	1,275	1,032	–	–
Other taxation and social security	1,666	1,463	–	–
Accruals and deferred income	1,827	793	491	118
Proposed dividend	1,606	1,402	1,606	1,402
	<b>45,172</b>	42,420	<b>15,912</b>	20,373

# Notes to the Financial Statements continued

## 16. Creditors continued

	Falling Due after more than One Year			
	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Bank loans	4,759	6,639	4,759	6,639
Hire purchase and finance leases	4	69	–	–
	<b>4,763</b>	6,708	<b>4,759</b>	6,639

## 17. Borrowings

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Borrowings due within one year				
Bank overdraft	3,324	5,698	11,851	16,379
Bank loan	1,954	1,954	1,954	1,954
Unsecured loan stock	–	500	–	500
	<b>5,278</b>	8,152	<b>13,805</b>	18,833
Borrowings due after more than one year				
Aggregate bank loan instalments repayable				
between one and two years	1,954	1,954	1,954	1,954
between two and five years	2,932	4,886	2,932	4,886
	<b>4,886</b>	6,840	<b>4,886</b>	6,840
Arrangement fees netted off	(127)	(201)	(127)	(201)
	<b>4,759</b>	6,639	<b>4,759</b>	6,639
Obligations under finance leases				
Due within one year	69	128	–	–
Due between one and two years	4	69	–	–
	<b>73</b>	197	–	–
Total borrowings	<b>10,110</b>	14,988	<b>18,564</b>	25,472

The bank overdraft of £3.324 million and term loan of £6.840 million from Bank of Scotland are secured by a fixed and floating charge on the assets of the Group. Interest is charged on the overdraft at 1% over base and on the term loan at 1.25% over LIBOR. The loan is repayable in semi-annual instalments of £977,000.

The Company guarantees the borrowings of other Group companies, which at 30 June 2004 amounted to £nil (2003: £nil).

## 18. Financial Instruments and Derivatives

An explanation of the Group's treasury policies and controls is set out in the Finance Director's Review on pages 10 and 11. As permitted by Financial Reporting Standard 13, short term debtors and creditors meeting the definition of a short term asset or liability are excluded from these disclosures.

### a) Fair value of financial assets and liabilities

The Group's financial assets and liabilities are, with the exception of finance leases and the foreign currency swap option (described below), at floating rates of interest and therefore their fair value and book value are equal. Finance leases are at various fixed rates of interest; however, the difference between book value and fair value is not material.

During the year the Group entered into two foreign currency swap options for a total of \$3.75 million to exchange sterling for US dollars at any time before 31 December 2004 and 31 December 2005 respectively. Their fair value at 30 June 2004 was not materially different to their book value, being £nil (2003: £nil).

### b) Interest rate risk profile of financial liabilities as at 30 June 2004

Financial liabilities principally comprise the Group's borrowings of bank loans and overdrafts from the Bank of Scotland. These are secured by fixed and floating charges on the assets of the Group. All interest is payable at floating rates of 1–1.25% above LIBOR. The Group also has finance lease commitments of £73,000 (2003: £197,000) with a weighted average fixed interest rate of 7.8% (2003: 7.9%) over a weighted average term of 10 months (2003: 18 months).

### c) Foreign currency exposure profile

There were no material foreign currency monetary assets or liabilities that would give rise to gains or losses in the profit and loss account.

### d) Maturity of borrowings

Details are shown in notes 16 and 17.

### e) Maturity of facilities

At 30 June 2004 the Group had an undrawn committed revolving credit facility of £5 million maturing in between two to five years.



# Notes to the Financial Statements continued

## 19. Provisions for Liabilities and Charges

	Group £'000
Deferred Tax	
At 1 July 2003 (included in debtors)	(7)
Transfer from profit and loss account	181
<b>At 30 June 2004</b>	<b>174</b>
	Company £'000
At 1 July 2003	–
Transfer to profit and loss account	(82)
<b>At 30 June 2004 (included in debtors)</b>	<b>(82)</b>

The amounts provided for deferred taxation at 30% (2003: 30%) are as follows:

Group	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Accelerated capital allowances	296	20	–	–
Short term timing differences	(122)	(27)	(82)	–
<b>Total</b>	<b>174</b>	<b>(7)</b>	<b>(82)</b>	<b>–</b>

## 20. Called up Share Capital

	Ordinary Shares of 1p each	
	£'000	No.
At 1 July 2003	510	50,975,037
New shares issued	–	2,820
<b>At 30 June 2004</b>	<b>510</b>	<b>50,977,857</b>
Authorised share capital At 30 June 2004 and 30 June 2003	750	75,000,000

During the year, 2,820 new ordinary shares of 1p were issued following the exercise of options under the SAYE scheme.

### Share Options

Outstanding share options over ordinary shares of 1p at 30 June 2004 under the various Group Share Option Schemes are as follows:

	Exercise Period	Exercise Price per Share Pence	At 30 June 2003 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2004 Number
<b>Unapproved Share Option scheme</b>							
14 Sept 2000	2003–2010	120	471,000	–	–	(38,000)	<b>433,000</b>
22 April 2002	2005–2012	153.5	377,000	–	–	(24,500)	<b>352,500</b>
11 April 2003	2006–2013	58.5	121,000	–	–	(16,000)	<b>105,000</b>
			969,000	–	–	(78,500)	<b>890,500</b>
<b>Approved Share Option scheme</b>							
2 April 2004	2007–2014	134.5	–	–	147,000	(4,000)	<b>143,000</b>
			–	–	147,000	(4,000)	<b>143,000</b>
<b>SAYE scheme</b>							
26 April 2001	2004–2006	158	76,476	–	–	(3,179)	<b>73,297</b>
9 April 2002	2005–2007	129	68,060	–	–	(8,673)	<b>59,387</b>
3 April 2003	2006–2008	39	1,034,938	(2,820)	–	(46,839)	<b>985,279</b>
			1,179,474	(2,820)	–	(58,691)	<b>1,117,963</b>
<b>Total share options</b>			<b>2,148,474</b>	<b>(2,820)</b>	<b>147,000</b>	<b>(141,191)</b>	<b>2,151,463</b>

The performance target to be achieved under the Unapproved and Approved Share Option Schemes is growth in earnings per share over a consecutive three year period (commencing no earlier than the beginning of the accounting period immediately preceding the grant of the option) of at least 12% above inflation.

## 21. Reserves

Group	Share Premium Account £'000	Merger Reserve £'000	Profit and Loss Account £'000
At 1 July 2003	26,783	1,720	(21,542)
New shares issued	1	–	–
Retained profit for the financial year	–	–	2,685
<b>At 30 June 2004</b>	<b>26,784</b>	<b>1,720</b>	<b>(18,857)</b>

Company			
At 1 July 2003	26,783	–	5,307
New shares issued	1	–	–
Retained profit for the financial year	–	–	54
<b>At 30 June 2004</b>	<b>26,784</b>	<b>–</b>	<b>5,361</b>

## 22. Goodwill

The cumulative amount of goodwill written off to reserves at 30 June 2004 was £30,184,000 (2003: £30,184,000).

## 23. Reconciliation of Operating Profit to Operating Cash Flow

	2004 £'000	2003 £'000
Operating profit	8,493	7,101
Depreciation	988	1,248
Goodwill amortisation	561	561
Loss/(profit) on disposal of tangible fixed assets	4	(100)
Decrease in stocks	317	1,698
Increase in debtors	(4,901)	(2,197)
Increase/(decrease) in creditors	5,114	(1,769)
Net cash inflow from operating activities	10,576	6,542





# Notes to the Financial Statements continued

## 24. Analysis of Net Debt

	At 1 July 2003 £'000	Cash flow £'000	Other Non-Cash Changes £'000	At 30 June 2004 £'000
Borrowings due after one year	(6,639)	–	1,880	<b>(4,759)</b>
Bank overdraft	(5,698)	2,374	–	<b>(3,324)</b>
Other borrowings due within one year	(2,454)	2,454	(1,954)	<b>(1,954)</b>
Finance leases	(197)	135	(11)	<b>(73)</b>
	<b>(14,988)</b>	<b>4,963</b>	<b>(85)</b>	<b>(10,110)</b>

## 25. Other Financial Commitments

	2004		2003	
	Land and buildings £'000	Other assets £'000	Land and buildings £'000	Other assets £'000
The Group has the following commitments payable within one year under operating leases expiring:				
Within one year	<b>25</b>	<b>65</b>	53	104
Between one and two years	<b>38</b>	<b>399</b>	–	111
Between two and five years	<b>25</b>	<b>268</b>	66	418
In five years or more	<b>708</b>	<b>1</b>	655	–
	<b>796</b>	<b>733</b>	774	633

The Company had no commitments under operating leases in either the current or prior year.

## 26. Pensions

The Group operates a defined contribution pension scheme for certain employees. The Group contributed between 4% and 12% of pensionable salaries which amounted to £287,000 (2003: £281,000) (see note 7).

## 27. Subsidiary Undertakings

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

Company	Country of Operation	Country of Incorporation	Principal Activity
Dechra Limited§	UK	Great Britain	Wholesaler, marketer and manufacturer of pharmaceuticals; Wholesaler and marketer of veterinary products, instruments and equipment; Provider of veterinary laboratory services
Dechra Investments Limited	UK	Great Britain	Holding Company
National Veterinary Services Limited*	UK	Great Britain	Non-trading
Arnolds Veterinary Products Limited*	UK	Great Britain	Non-trading
Dales Pharmaceuticals Limited*	UK	Great Britain	Non-trading
Veneto Limited	UK	Great Britain	Holding Company
North Western Laboratories Limited	UK	Great Britain	Non-trading
Cambridge Specialist Laboratory Services Limited†	UK	Great Britain	Non-trading
Anglian Pharma Manufacturing Limited‡	UK	Great Britain	Non-trading
Anglian Pharma Limited	UK	Great Britain	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.



# Financial History

	<b>2004</b>	2003	2002	2001	2000
	<b>£'000</b>	£'000	£'000	£'000	£'000
<b>Profit and loss account</b>					
Turnover	<b>186,843</b>	179,309	170,202	156,400	145,487
Operating profit before exceptional items and goodwill	<b>9,184</b>	8,162	8,773	8,234	7,505
Profit on ordinary activities before taxation	<b>7,369</b>	5,685	7,308	4,772	2,088
Profit after taxation	<b>5,081</b>	3,833	5,058	3,034	1,546
Dividends	<b>(2,396)</b>	(2,093)	(2,069)	(1,867)	–
Retained profit	<b>2,685</b>	1,740	2,989	1,167	1,546
Earnings per share — adjusted (pence)	<b>11.28</b>	9.39	10.59	9.29	6.05
Dividend per share (pence)	<b>4.70</b>	4.12	4.12	3.75	–
Average number of employees	<b>643</b>	615	500	454	408
<b>Balance sheet</b>					
Fixed assets	<b>10,398</b>	11,302	11,608	4,317	2,595
Working capital	<b>10,043</b>	11,157	8,869	5,157	1,580
Provisions for liabilities and charges	<b>(174)</b>	–	–	–	–
Net debt	<b>(10,110)</b>	(14,988)	(14,728)	(8,464)	(31,994)
Shareholders' funds	<b>10,157</b>	7,471	5,749	1,010	(27,819)
<b>Cash flow</b>					
Cash flow from operating activities	<b>10,576</b>	6,542	6,397	3,453	12,036
Net interest paid	<b>(1,012)</b>	(1,384)	(1,126)	(7,712)	(3,662)
Tax paid	<b>(1,864)</b>	(2,066)	(2,155)	(1,195)	(252)
Capital expenditure	<b>(546)</b>	(1,224)	(2,704)	(1,771)	(859)
Acquisitions	–	32	(3,823)	(100)	(260)
Equity dividends paid	<b>(2,192)</b>	(2,078)	(1,927)	(622)	–
Financing	<b>(2,588)</b>	(3,410)	(765)	2,714	(2,473)
Changes in cash in period	<b>2,374</b>	(3,588)	(6,103)	(5,233)	4,530

The historical figures have been adjusted to reflect the adoption of FRS19 "Deferred Tax".

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