Services

Pharmaceuticals

Dechra

Pharmaceuticals PLC

An International Veterinary Pharmaceutical Business

Annual Report and Accounts for the year ended 30 June 2008

Welcome to Dechra

Group Strategy

- To sustain growth from our core businesses.
- To continue to develop our veterinary pharmaceutical portfolio.
- To increase our pharmaceutical penetration into international markets.

Services

Pharmaceuticals

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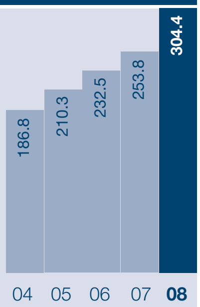
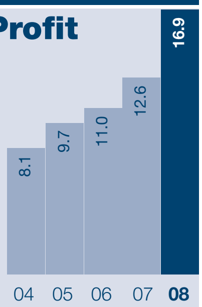
Dechra
Pharmaceuticals PLC

Financial Highlights

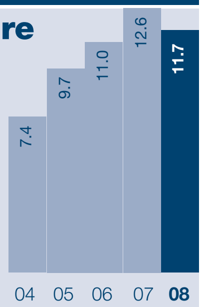
+20%
Revenue
£ million



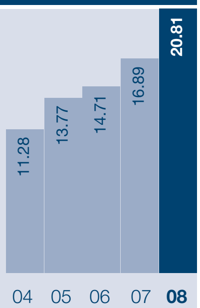
+33%
Adjusted Profit Before Taxation*
£ million



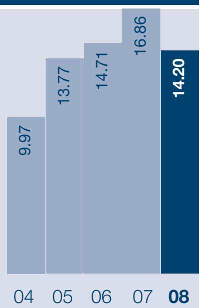
Profit Before Taxation
£ million



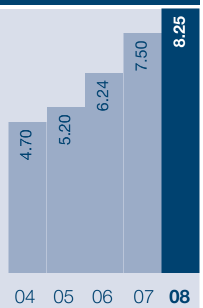
+23%
Adjusted Earnings per Share*
pence



Earnings per Share
pence



+10%
Dividend per Share
pence



* Before *VetXX*® rationalisation costs and amortisation of acquired intangibles.

Key Developments

- Robust organic growth in operating profit.
- *VetXX* acquisition fully integrated and performing in line with expectations.
- Product development progressing to schedule.
- *Vetoryl*® US FDA compliance notification received with US launch scheduled for January 2009.
- Key pharmaceuticals continue to increase market penetration.
- *NVS*® grew ahead of strong market growth.
- Dales continues to show good growth.

Operational Review

Pharmaceuticals Division

DVP EU grew strongly throughout the financial year. Both the existing UK and export businesses and the six months' revenue from *VetXX* contributed to this performance.

Pharmaceuticals Revenue

up 104%
to £54.3m (2007: £26.7m)

Share of Total Group Revenue

17%

Share of Adjusted Operating Profit

50%

Dechra
Veterinary Products

Dechra Veterinary Products ("DVP")

Marketing and development of licensed branded pharmaceuticals to the veterinary profession worldwide.

Dales Pharmaceuticals

Dales Pharmaceuticals ("Dales")

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

Pharmaceuticals

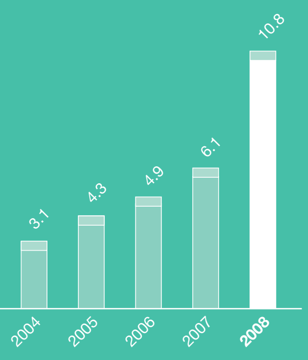
Dechra
Pharmaceuticals PLC

Performance

- KEY PRODUCTS CONTINUE TO GROW STRONGLY
- SIGNIFICANT INCREASE IN US REVENUE
- EXCELLENT PERFORMANCE FROM DALES – OPERATING PROFIT UP 36%

up 76%

Adjusted operating profit
£m



Milestones

- Successful integration of *VetXX*
- Strong EU growth of *Vetoryl* and *Felimazole*®
- Good market penetration by new generic launches in UK
- Pharmaderm range integrated into US operation

Milestones

- Further new third party contracts gained
- Successful 'go live' on new Oracle integrated IT system
- Further progress on quality management systems

Our Business
Our Performance
Our Governance
Our Accounts

Operational Review
Pharmaceuticals Division continued

Pharmaceuticals

Dechra Veterinary Products operates in the USA and ten European countries: Norway, Denmark, Finland, Sweden, the Netherlands, Spain, Portugal, France, Ireland and the UK.

Global Operations

Product Type

Diets:

Specific® life-stage diets for dogs and cats. These are a range of veterinary only diets for healthy dogs and cats.

Specific therapeutic diets for dogs and cats. These are a range of diets specifically targeted to assist in the management of clinical conditions such as kidney problems, heart problems and allergies.

Specific

Pharmaceuticals:

Canaural® — first line treatment for otitis externa in the cat and dog in the UK.

CleanAural® — leading ear cleaning product.

Equipalazone® — the leading non-steroidal anti-inflammatory drug (NSAID) for the treatment of musculoskeletal disorders in the horse.

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

Fuciderm® — for the treatment of surface pyoderma in the dog.

Canaural

Equipalazone

A number of our products are also marketed by partners worldwide into important territories, including Germany, Italy, Canada, Australia and Japan. We have also started to develop relationships and have initial sales within Eastern Europe.

Felimazole

***Fucithalmic*® Vet** — the only licensed product for the treatment of conjunctivitis associated with staphylococcal infections.

***Malaseb*®** — the only UK licensed medicated shampoo for cats and dogs.

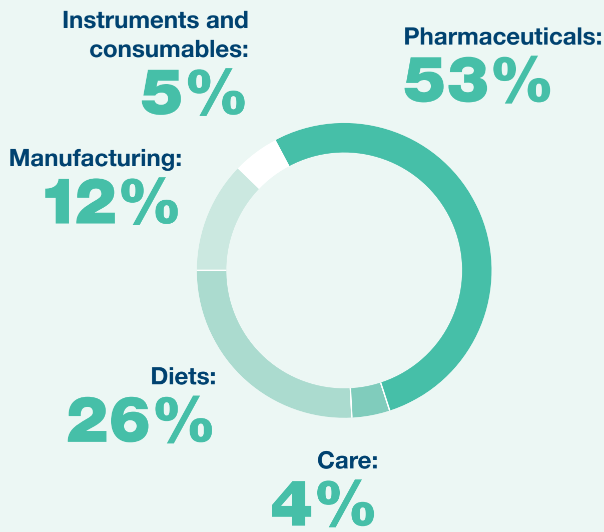
The ***Vetivex*®** range of infusion fluids — licensed for the treatment of dehydration.

Vetoryl — a novel and patented product for the treatment of Cushing's Disease (excess cortisol or hyperadrenocorticism) in dogs.

Vetoryl

Fucithalmic

Annualised Revenue by Product Type



Operational Review

Services Division

***NVS* services both companion animal and livestock practices and agricultural merchants. As with other divisions within Dechra, *NVS* benefits from the good year-on-year growth in the veterinary market which has seen growth of approximately 10% in the year.**

Services Revenue

up 11%
to £259.4m (2007: £234.2m)

Share of Total Group Revenue

83%

Share of Adjusted Operating Profit

50%

National Veterinary Services

National Veterinary Services ("*NVS*")

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.

NationWide Laboratories

NationWide Laboratories ("NWL")

Multi-disciplined independent commercial veterinary laboratory.

Cambridge Specialist Laboratory Services

Cambridge Specialist Laboratory Services ("CSLS")

Primary care and secondary referral specialist veterinary immunoassay laboratory.

Our Business
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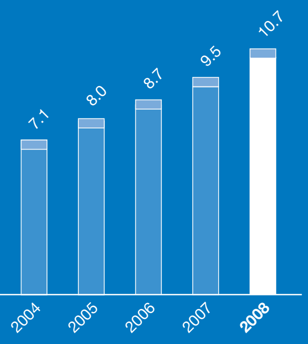
Performance

- STRONG SALES PERFORMANCE
- INCREASE IN MARKET SHARE
- IMPROVED OPERATING MARGIN

up 12%

Adjusted operating profit
£m



Milestones

- *NVS* outperforms the market
- Successful cold chain distribution of Blue Tongue vaccine
- Gained customers in new distribution channels

Milestones

- Integrated Leeds Veterinary Laboratories (“LVL”)
- 23% increase in revenue
- *Allervet*® allergy testing exceeds expectations

Chairman's Statement

I am pleased to report an excellent performance by the Group during the period. We have achieved good growth in revenue and profitability from our UK businesses, increased market share at *NVS*, significantly increased US revenues, achieved further penetration of our products in Europe and launched new products in the UK. Furthermore, we have made an acquisition, *VetXX* Holdings A/S ("*VetXX*"), which materially increases our pharmaceutical portfolio and provides a strong European footprint to market the enlarged product range and future developed products. The development of our own branded veterinary pharmaceutical portfolio is progressing to schedule, with the launch of a key product for the US market, *Vetoryl*, planned for January 2009.

Financial Highlights

Group revenue increased 19.9% from £253.8 million to £304.4 million.

Adjusted operating profit increased by 38.0% to £19.1 million (2007: £13.9 million). Adjusted profit before taxation rose 33.3% to £16.9 million (2007: £12.6 million). Operating profit after deducting rationalisation costs and amortisation of acquired intangibles was £14.1 million (2007: £13.8 million). Profit before taxation on the same basis was £11.7 million (2007: £12.6 million).

Adjusted basic earnings per share was 20.81p, up 23.2% from the 16.89p achieved in 2007. Earnings per share after rationalisation costs and amortisation of acquired intangibles was 14.20p (2007: 16.86p).

"We have achieved good growth in revenue and profitability from our UK businesses, increased market share at National Veterinary Services, significantly increased US revenues, achieved further penetration of our products in Europe and launched new products in the UK."

Total cash investment in product development was £3.7 million (2007: £3.3 million), of which £2.4 million was charged to the income statement (2007: £1.6 million).

Cash flow continued to be strong with cash flow from operations being 114% of operating profit. As at 30 June 2008, the Group had net borrowings of £27.0 million compared to net funds of £1.0 million at 30 June 2007, the increase being the new borrowings taken out to partially fund the acquisition of *VetXX*.

Net debt to EBITDA on an adjusted basis was 1.3 times. Interest cover on adjusted operating profit was 8.4 times.

Further details are contained in the Business Review.

Dividend

In line with our progressive dividend policy and our confidence in the business, the Directors are recommending an increase in the final dividend to 5.50p per share (2007: 5.00p per share). This, together with the interim dividend of 2.75p per share (2007: 2.50p per share), makes a total dividend for the year of 8.25p per share (2007: 7.50p per share), a 10% increase.

The total dividend is covered 2.0 times by profit after taxation but after adding back amortisation of acquired intangibles.

The final dividend, which is subject to Shareholder approval at our Annual General Meeting to be held on Friday 7 November 2008, will be paid on 12 December 2008 to Shareholders on the Register at 14 November 2008.

People

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

Prospects

The Group's current trading is in line with the Board's expectations. International companion animal markets continue to grow; our core businesses continue to perform well; our acquisition, *VetXX*, is meeting our expectations; and our key products continue to show good growth. The business will be further enhanced with new product introductions, particularly the launch of *Vetoryl* and *Felimazole* in the US in the second half of the 2009 financial year. We therefore remain confident in our future.

Michael Redmond
Chairman
2 September 2008

Directors' Business Review

The Business and its Markets

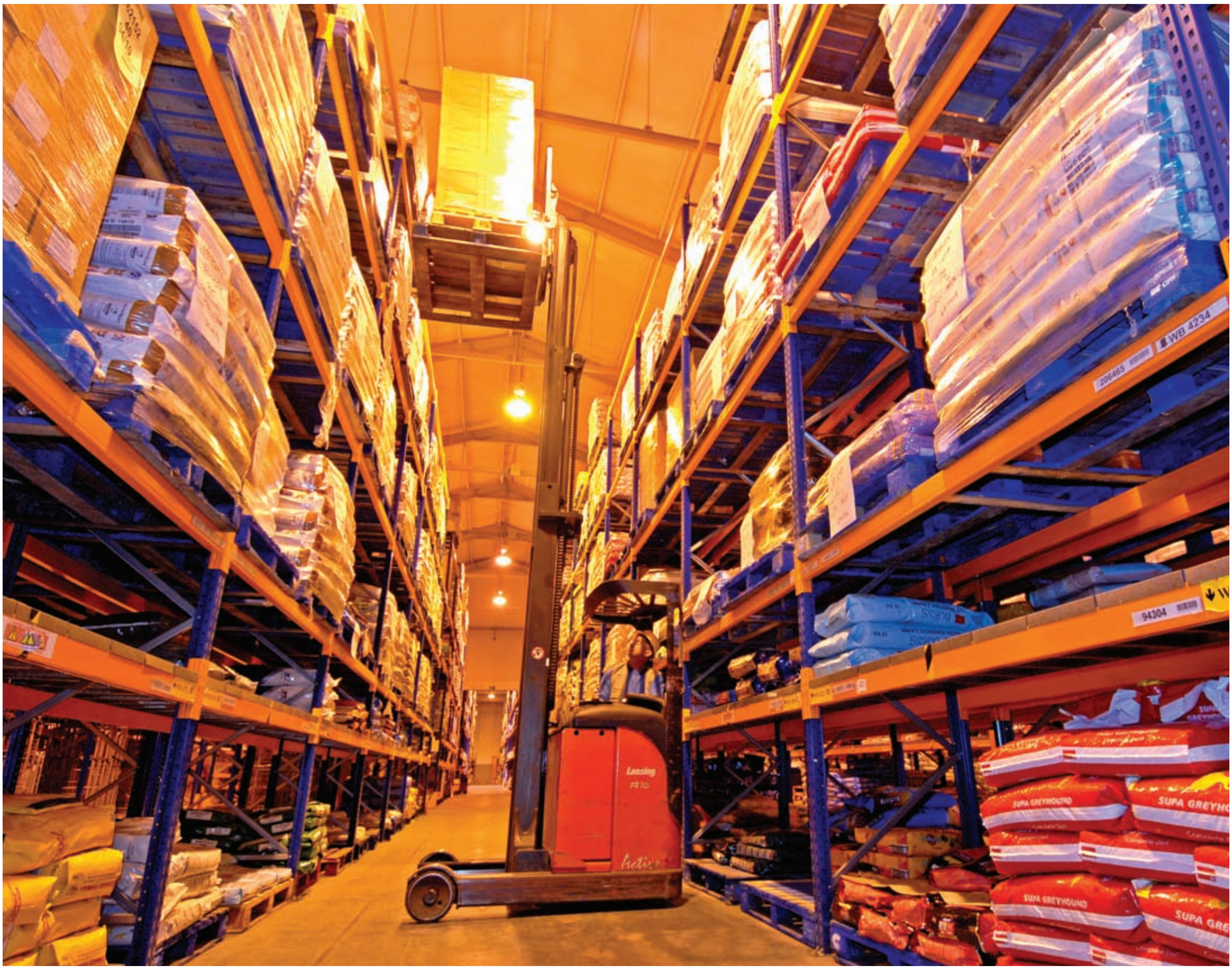
Dechra Pharmaceuticals PLC ("Dechra") operates under two Divisions, Pharmaceuticals and Services. The Pharmaceuticals Division operates internationally and is unique in having its sole area of specialisation in companion animal products. The Services Division serves UK veterinary practices in both the companion animal and livestock sectors.

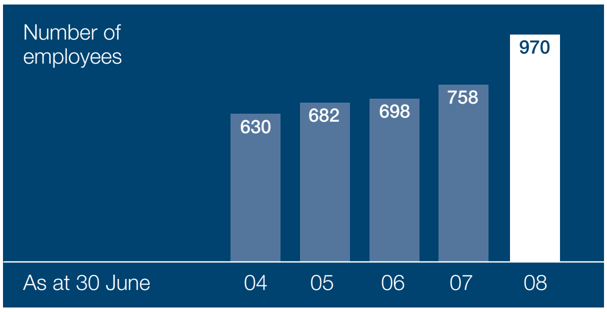
Following the acquisition of *VetXX* in January 2008 (which is detailed later in this review), the Group now employs 970 people and operates out of 11 countries.

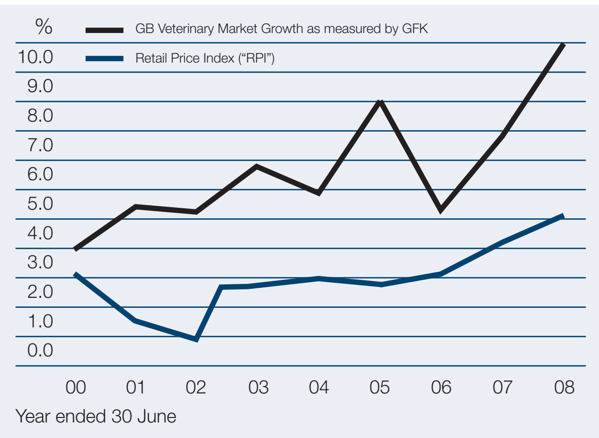
The veterinary market for companion animal products is dominated by North America, Western Europe and Japan. Key drivers within the companion animal market are the increasing medical and surgical capabilities of veterinary surgeons, increased life expectancy of pets and ultimately the consumer's passion for their animals.

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

"*Following the acquisition of VetXX in January 2008, the Group now employs 970 people and operates out of 11 countries*."







Companion Animal Populations in Dechra Territories

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

Dechra currently markets products through partners and has products in registration in several other important small animal markets, the most significant of which are detailed below:

Companion Animal Populations in Important Non-Subsidiary Countries

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

The UK veterinary market, which still represents the majority of Dechra's overall sales, has consistently outperformed the Retail Prices Index over the last ten years of market growth.

Pharmaceutical Product Development

Strategy

The Group focuses on solid organic growth within its Pharmaceuticals and Services Divisions. However, the key strategic focus, which is now delivering excellent growth and will provide significant revenues in the future, is through the development and acquisition of our own branded veterinary pharmaceutical portfolio of both novel and generic products and the licensing of these key products into international markets. Our product development is focused entirely on prescription only veterinary medicines for dogs, cats and horses, with our main area of specialisation being within critical care, endocrinology, dermatology and ophthalmology. Most of our projects utilise existing pharmaceutical entities that are typically used within the human market and therefore the majority of product creation is development and not research based.

Directors' Business Review

Legislation

There are three pieces of legislation that the Directors believe have been implemented to encourage development of specialised veterinary products into markets that are small relative to human pharmaceutical sales:

- The "Cascade Legislation": The basic principle of this EU legislation is that the veterinary surgeon must prescribe a veterinary licensed product above any other alternative. Therefore, any products licensed specifically for animals must be used instead of a human ethical or generic product, irrespective of price;
- EU law gives a novel product ten years' protection from generic competitors, irrespective of its patent status; and
- The US FDA ("Food and Drug Administration") Center for Veterinary Medicine provides five years' protection from generic competitors for the first approval of a new pharmaceutical, irrespective of its patent status. Subsequent approvals receive three years' protection.

Dechra considers this legislation to be favourable towards its strategy and is essential in providing safe, efficacious products for animal welfare.

Key Strengths

The Directors believe that the Group has the exceptional skills and expertise that are necessary for delivering its strategy:

- The recognition of opportunities for specialised and niche pharmaceutical products for the veterinary market achieved through knowledge gained from the Group's strong market position;
- In-house formulation of products into preparations suitable for the target species;
- International experience and proven track record of regulatory and license delivery;
- Successful design and management of international clinical field trials;
- Industry leading veterinary and commercial personnel throughout the Group; and
- We have assembled scientific advisory boards comprising international key opinion leaders.

Dechra has a proven track record of delivering licensed products by working closely with regulatory authorities and by complying with the highest standards. Increased investment in product development capabilities has been made throughout the year being reported, and the Directors are planning for a further increase in development spend in the new financial year.

Key Products and Specialisations

Dermatology — Total annualised sales £10.1 million

With the acquisition of the *VetXX* business Dechra has become a leading veterinary supplier in dermatological treatments.

Canaural was first licensed in 1975 and is still the leading first line treatment for otitis externa in the cat and dog in the UK. *Canaural,* which is now registered in 25 countries and generates annual revenues of £3.9 million, can also be used in conjunction with our leading ear cleaning product *CleanAural* which generates a further £1.3 million of revenues annually.

Fuciderm, licensed in 1995, is the only licensed product for the treatment of surface pyoderma in the dog, such as acute moist dermatitis and intertrigo. It is a key product within our dermatology range, selling into 23 countries, generating annual sales of £2.7 million.

Malaseb was first licensed in 1996 and is still the only UK licensed medicated shampoo for cats and dogs. It is used to treat skin diseases caused by malassezia and staphylococcal infections. The current annual product sales are £1.8 million. It is anticipated that there is a significant growth opportunity for the product as it has been submitted for registration in several new European territories.

Endocrinology — Total annualised sales £9.2 million

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

Vetoryl is a novel and patented product for the treatment of Cushing's Disease (excess cortisol or hyperadrenocorticism) in dogs. It is marketed within the EU in 21 territories and is the only recognised licensed efficacious veterinary product for the treatment of Cushing's Disease around the world. Launched in the UK on a provisional marketing authorisation in September 2001, *Vetoryl* has since achieved full approval in the EU and has consistently increased market penetration. In the USA it is also sold under an FDA waiver scheme and through special import schemes into other territories such as Canada and Australia. Global revenues for *Vetoryl* in the twelve months were £5.1 million.

Felimazole is the first veterinary licensed product for the treatment of feline hyperthyroidism. It competes in the world's markets against human equivalents; however, the Cascade Legislation (see Legislation) has supported its growth. *Felimazole* received marketing approval for the UK in 2002 and was approved in the EU in 2005. Global revenues for *Felimazole* in the 12 months were £3.9 million.

Equine Medicine — Total annualised sales £5.7 million

We have a wide range of 14 licensed products supporting the equine veterinarian. The lead product with the highest sales is *Equipalazone*.

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

Ophthalmology — Total annualised sales £2.95 million

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

Fucithalmic Vet, licensed in 1993, is the only licensed product available for the treatment of conjunctivitis associated with staphylococcal infections. It is highly effective because of its unique sustained release formulation that ensures prolonged retention within the eye. It is currently licensed in 21 countries worldwide and delivers sales of £2.5 million.

Directors' Business Review

Critical Care — Total annualised sales £2.0 million

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

The *Vetivex* range of infusion fluids are licensed for the treatment of dehydration. They are widely used to meet normal fluid and electrolyte requirements when fluids cannot be given orally, such as during surgery. The licenses were purchased from Ivex Ltd, a subsidiary of Gambro BCT Inc, in 2005. Since this time, sales have grown year on year and currently deliver revenue of £1.7 million. The products are only licensed for sale in the UK and Ireland.

Development Team

We have a highly skilled development team of 20 people located in the United Kingdom, Denmark and the United States. In the year we have added two scientists to the pharmaceutical development laboratory located at our manufacturing facility in Skipton, invested in new equipment and have six new regulatory staff through the acquisition of *VetXX*. This team has now been fully integrated into Dechra. We are currently in the process of adding further skilled personnel into this team as we continue to identify and develop new products. During the year we acquired and successfully implemented a new pharmacovigilance monitoring and reporting database.

Development Update

- It is pleasing to report that we have received notification of compliance for all parts of the *Vetoryl* USA application from the FDA. An administration process has now commenced and the product will be launched at the North American Veterinary Conference in Florida in January 2009.
- We continue to make satisfactory progress in our *Vetoryl* applications for Japan, Canada and Australia.
- *Vetoryl* has been approved in Switzerland and is being marketed by our partner, Veterinaria.
- The completed dossier for *Felimazole* for the US market has been submitted and we have subsequently had notification of approval of the CMC and safety sections. We remain very confident as to the progress of the efficacy section and anticipate being in a position to receive approval for this product in the first half of the next calendar year.
- Trial work for *Equidone*® for the US market is almost completed and has provided excellent results.
- Research into other potentially lucrative applications for *Equidone* has continued at two US universities; initial trial results for one therapeutic indication are very positive.
- *Ovuplant*® has been approved and marketing commenced in Germany, Spain, France, Ireland, Italy and the Netherlands.
- Prednidale 25, a new dosage form of an existing product, has been approved and launched within the United Kingdom.
- *Intraepicaine*®, one of our specialist equine products, has been registered and marketed into Ireland.
- *Vetivex* No 1 has been approved in Ireland and will be marketed soon.
- *Atipam*®, a UK branded generic, has been approved in partnership with the marketing authorisation holders, Eurovet, and has been launched in the UK.
- Dossiers for two new significant generic products have been submitted for approval.

In addition to the above activities, the Group has recognised other novel and generic development opportunities which have satisfied our internal assessment criteria resulting in commencement of development programmes.

Acquisition

VetXX

In December 2007 we announced the acquisition of *VetXX* for £65.2 million including expenses. The acquisition was made on a cash and debt-free basis and was funded by way of a new debt facility and the placing and open offer of 11,624,544 new ordinary shares, raising £33.7 million net of expenses.

VetXX is a developer, producer and marketer of companion animal veterinary products to veterinary professionals in ten European countries. The acquisition has provided Dechra with a strong European footprint and has materially increased Dechra's range of licensed veterinary products. It also provides Dechra with a sales and distribution network to market the enlarged product range and future developed products to veterinary practices and wholesalers within eight European countries in addition to the UK and Ireland in which Dechra already operated.

The business has now been successfully integrated into Dechra and expected synergies have been realised by the full integration of their UK sales and marketing function into our existing operation and by the closure of their administration head office in Copenhagen. The French subsidiary has already been rebranded as Dechra with the remainder of the organisation being rebranded within the next six months. Further information is provided on the enlarged sales and marketing operation later in this review.

Pharmaceuticals Division

Our Pharmaceuticals Division comprises Dechra Veterinary Products Europe ("DVP EU"), Dechra Veterinary Products USA ("DVP USA"), and Dales Pharmaceuticals.

Dechra Veterinary Products EU

DVP EU, located in Shrewsbury, England and Uldum, Denmark, employs 212 people. The business markets and sells our own branded, licensed veterinary pharmaceuticals within ten European countries and manages the relationships with our worldwide marketing partners.

Sales Personnel

France	16	Holland	4
UK	14	Norway	4
Spain	8	Finland	3
Denmark	5	Portugal	1
Sweden	4	Eire	1

The marketing department, which consists of over 20 people, is coordinated from the UK; however, all major territories have their own local marketing expertise.

In addition to the pharmaceuticals outlined earlier in this report which represent 53% of annualised divisional sales, the team also markets the veterinary exclusive range of specialist diets *Specific,* which represents 26% of annualised divisional turnover, and also a range of unlicensed products branded as the Care range, which represents 4%.

"DVP EU, located in Shrewsbury, England and Uldum, Denmark, employs 212 people. The business markets and sells our own branded, licensed veterinary pharmaceuticals within ten European countries and manages the relationships with our worldwide marketing partners."

- There are two main pet diet product ranges which are sold exclusively through veterinary practices, these being *Specific* for dogs and *Specific* for cats. Each range offers tailored life-stage and therapeutic diets. The therapeutic products represent approximately 70% of diet sales and seek to address issues such as diabetes, arthritis, urinary, kidney, liver and heart problems.
- The Care range has two key products, *CleanAural* and *Neutrale*™. *CleanAural* is a no sting ear cleaner for frequent use for ears producing excess wax. *Neutrale* is a range of specialist shampoos for skin conditions in dogs.

Additionally, we have a number of marketing agreements: with Virbac Inc. to market Thyroxyl within the UK and Ireland; with Eurovet to market *Domidine*®, *Sedator*® and *Atipam* in the UK and Ireland; with Biopure to market *Oxyglobin*® within the EU and with Peptech to market *Ovuplant* in the EU.

DVP EU
management team

Left to right: Giles Coley European Pharmaceutical Sales & Export Director, Ed Torr Managing Director, Carsten Jeppesen Chief of Logistics, Roeland Meijers Senior Vice-President, Jørgen Eker Chief Financial Officer

DVP UK
management team

Chris Kingdom
Sales Director

Bob Parmenter
Managing Director

Mark Sallin
Finance Director

Gwenda Bason
Marketing Director

A number of our products are also marketed by partners worldwide into important territories including Germany, Italy, Canada, Australia and Japan. We have also started to develop relationships and have initial sales within Eastern Europe.

Since the acquisition of *VetXX* we have transferred *Equipalazone* Powder from our previous marketing partner into Dechra livery and are successfully marketing the product through our subsidiary in France and through a new partner in Germany.

A number of new and existing Dechra products will be launched into our EU subsidiaries throughout the next 12 months.

DVP EU, as outlined in the Financial Review, grew strongly throughout the financial year. Both the existing UK and export businesses and the six months' revenue from *VetXX* contributed to this performance.

Following the acquisition of *VetXX*, a number of management changes have been implemented. Ed Torr, previously the Group's Development Director and Main Board member, has been appointed Managing Director of DVP EU. Giles Coley, previously DVP UK Country Manager, is now European Pharmaceutical Sales and Export Director. The remainder of the DVP EU operating board comprises three of the retained key *VetXX* staff, Carsten Jeppesen, Chief of Logistics, Jørgen Eker, Chief Financial Officer, and Roeland Meijers, Senior Vice-President who has direct responsibility for the *Specific* diet range. We are also pleased to have retained the *VetXX* Country Managers who form the basis of the senior management team. Bob Parmenter, who has over 40 years' veterinary industry experience and an excellent track record, has been appointed as Managing Director for the UK which is currently the largest territory and represents 30% of the Pharmaceutical Division's annualised sales.

Pharmaceuticals

Directors' Business Review
Pharmaceuticals Division continued

Dechra Veterinary Products USA

This business, employing seven people, was established in 2005 and is located in Kansas City, USA, a city in which a significant number of US animal health businesses are located. The business currently markets seven licensed veterinary ophthalmic, otic and dermatological products; the supply and marketing rights of this range were acquired in May 2007. We have successfully increased market share and sales of these products throughout the year. During the year we have also secured two new products through partnerships: with Biopure to market *Oxyglobin*, a companion animal blood substitute, and with Orthogen to market Irap, an orthopaedic treatment for horses.

The imminent launch of *Vetoryl* and *Felimazole* into the US market will significantly increase our US revenues; therefore, we are in the process of strengthening our operation. A new Head of Technical Services, Dr Dana Fertig, a Sales and Marketing Director, Doug Hubert, and an Equine Specialist, Bryan Toliver, have already been appointed. We are now in the process of recruiting a sales team with a further eight appointments anticipated prior to the end of the calendar year. The administration and technical services departments will also be strengthened. Logistics and accounts are currently outsourced with established partners.

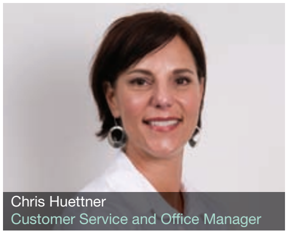
The US market remains strategically significant to Dechra, being approximately ten times the size of our current largest market, the UK. New products are under development and opportunities are being reviewed to further strengthen our US portfolio.

"We have received notification of compliance for all parts of the Vetoryl USA application from the FDA. An administration process has now commenced and the product will be launched at the North American Veterinary Conference in Florida in January 2009."

Pharmaceuticals

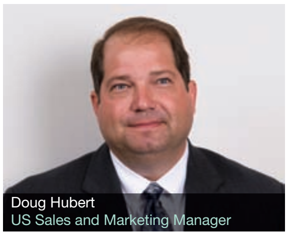
"The US market remains strategically significant to Dechra, being approximately ten times the size of our current largest market, the UK. New products are under development and opportunities are being reviewed to further strengthen our US portfolio."

DVP USA
management team


Chris Huettner
Customer Service and Office Manager


Mike Eldred
President


Chip Whitlow
Sales Manager


Doug Hubert
US Sales and Marketing Manager


Dana Fertig
Veterinary Technical Services Manager


Bryan Toliver
Equine Business Manager

Dales

Dales, located in Skipton, England and employing 193 people, is a fully Medicines and Healthcare Regulatory Agency ("MHRA") approved pharmaceutical manufacturer with multi-competence in both scale and dose form. Dales manufactures the vast majority of our own branded licensed pharmaceutical products, which are marketed through DVP, but also derives approximately 50% of revenues from third party toll manufacture, predominantly for human pharmaceutical companies. This is Dechra's only significant source of revenue not derived from the veterinary market.

Dales has had an excellent year with increased production of our own licensed products and from growth in third party sales. Third party business continues to be attracted from new and existing customers. The business has also continued to benefit from greater efficiency and productivity as we build upon the quality systems implemented last year. This had been enhanced by the successful "go live" of a new IT platform, Oracle. The management team has been strengthened with the appointment of a new Quality Director, Andrew Parkinson, and a Manufacturing Manager, Ernest Ukachu.

Pharmaceutical manufacturing is also carried out at the *VetXX* Uldum, Denmark facility where *Malaseb*, the Care range and a number of minor products are currently manufactured. Potential synergies with Dales and improved capacity utilisation opportunities are being explored.

"Dales has had an excellent year with increased production of our own licensed products and from growth in third party sales."

Dales
management team

Left to right: Gareth Davies Sales & Marketing Director, Steve Dewar Operations Director, Mike Annice Managing Director, Kirsty Ireland Finance Director, Andrew Parkinson Quality Director

Services Division

Our Services Division comprises National Veterinary Services, NationWide Laboratories and Cambridge Specialist Laboratory Services.

NVS

NVS, located in Stoke-on-Trent, England, employing 473 people, is the UK market leader, as measured in terms of market share, in the supply and distribution of veterinary products to veterinary practices and other approved outlets. *NVS* competes with two major full line competitors on the UK mainland, Centaur Services and Dunlop, both of which are under American ownership.

NVS stocks a range of over 14,000 products including pharmaceuticals, pet products, consumables and accessories. *NVS* has also developed a range of IT solutions for veterinary practices which are branded *Vetcom*®. *Vetcom*'s principal objective is to collect orders electronically. Approximately 83% of *NVS* orders arrive automatically with no human input required. This is considered to be a major advantage to our customers and also contributes to our low operating costs as, with over 35,000 invoiced lines per working day, significantly increased numbers of people would be required to handle this business manually. *NVS* distributes to 1,800 customers daily utilising its own fleet of vans and HGVs. The centralised inventory in Stoke-on-Trent is picked and packed throughout the afternoon and evening and then distributed overnight to trunking depots by HGVs on large trailers. Van drivers are then employed locally at these depots who distribute the goods to the customers. *NVS* operates on a Sunday until Thursday shift which allows customers to place orders up until 7.00 pm Monday to Thursday and any time over the weekend up to 10.00 am on Sunday for a next working day delivery.

NVS services both companion animal and livestock practices and agricultural merchants. As with other divisions within Dechra, *NVS* benefits from the good year-on-year growth in the veterinary market which has seen growth of approximately 10% in the year (see The Business and its Markets).

NVS
management team


Martin Riley
Managing Director


Tony Scott
Operations Director


Caitrina Harrison
Sales & Marketing Director


Dan Shipman
Finance Director


Colin Higham
Buying Director

Services

"NVS is the UK market leader, as measured in terms of market share, in the supply and distribution of veterinary products to veterinary practices and other approved outlets."

A strong sales performance from *NVS*, which has outperformed the market, can be attributed to the successful cold chain distribution of Blue Tongue vaccine, volume growth from existing practices and groups and by new business gains. The market has seen further consolidation of veterinary practices by groups with whom *NVS* has good long term relationships. Whilst *NVS* has been subject to significant fuel and utility cost increases, improved efficiency, solid control of discounts offered, good cost control and market share gains have all contributed to the performance.

Directors' Business Review
Services Division continued

"NWL operates out of three locations, Poulton-le-Fylde, Leeds and Swanscombe, and employs 80 people."

Laboratories

NWL operates out of three locations, Poulton-le-Fylde, Leeds and Swanscombe, and employs 80 people. As first referral veterinary laboratories, they provide histology, pathology, haematology, chemistry and microbiology services to veterinary practices. Whilst a certain amount of simple chemistry is performed at veterinary practices, nearly all veterinary practices will outsource more advanced analytical tests, often requiring expert interpretation of results. We consider NWL to offer the highest level of service within this sector. We were the first veterinary laboratory to gain UKAS (United Kingdom Accreditation Service) approval. NWL also offers other services such as *Allervet*, a pet and equine allergy testing programme. *Allervet* revenues have exceeded our expectations during the year.

Leeds Veterinary Laboratories, which was acquired in April 2007, has now been fully integrated into NWL. We have invested in LVL's premises in increasing laboratory capacity and also in new equipment.

Overall, the laboratory revenues have seen a good increase; however, the increased infrastructure costs have resulted in a profit performance slightly below last year.

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

Laboratories
management team

Left to right: Dr Peter Graham Managing Director, Jamie Whitwam Food Microbiology and Business Development Manager

Directors' Business Review

Key Performance Indicators

	2008 £'000	2007 £'000
Revenue — pharmaceuticals	54,302	26,648
— services	259,363	234,207
— inter-division	(9,294)	(7,052)
Total revenue	304,371	253,803
Adjusted operating profit before product development cost	21,550	15,521
Product development cost	(2,408)	(1,645)
Adjusted operating profit	19,142	13,876
Adjusted operating margin		
— Before product development cost	7.1%	6.1%
— After product development cost	6.3%	5.5%
Cash conversion rate	114%	103%
Gearing (i)	27.3%	(3.5%)
Return on capital employed (pre-tax)	23.3%	37.5%
Revenue per employee	342	340
Inventory days (ii)	43	42
Receivables days (iii)	39	40
Financial Ratios		
Adjusted interest cover	8.4 times	11.3 times
Effective tax rate	28.9%	29.9%
Dividend cover (before amortisation of acquired intangibles)	2.0 times	2.2 times

(i) Gearing is calculated by dividing net borrowings by the sum of Equity Shareholders' funds and net borrowings.

(ii) Inventory days are calculated by determining the number of days' purchases, counting back, included in the year end inventory figure.

(iii) Receivables days are calculated by determining the number of days' revenue (adjusted for value added tax), counting back, included in the year end receivables figure.

Review Of Operating Performance

Group Performance

The financial year was an exciting one for the Group. Our core businesses produced robust growth and as outlined earlier in this report the Group was significantly enhanced by the acquisition of *VetXX* in January 2008.

The following review focuses on adjusted figures (before *VetXX* rationalisation costs and amortisation of acquired intangibles) as the Directors believe that these give a clearer indication of underlying performance.

Group revenue increased by 19.9% to £304.4 million while adjusted operating profit, at £19.1 million, was ahead of last year by 38%.

Adjusted pre-tax profit was £16.9 million, 33.3% up on last year.

Pharmaceuticals Division

	2008 £'000	2007 £'000
Revenue		
Own branded pharmaceuticals	32,136	16,599
Diets	9,915	—
Third party contract manufacturing	8,677	6,232
Instruments, consumables and equipment	3,574	3,817
Total revenue	54,302	26,648
Adjusted operating profit	10,765	6,102
Adjusted operating margin	19.8%	22.9%

Services Division

	2008 £'000	2007 £'000
Revenue		
Veterinary wholesaling	253,973	229,840
Laboratories	5,390	4,367
Total revenue	259,363	234,207
Adjusted operating profit	10,693	9,525
Adjusted operating margin	4.1%	4.1%

Revenue from the Pharmaceuticals Division grew by 103.8% to £54.3 million, of which £19.0 million was contributed by *VetXX*.

Within own branded pharmaceuticals, our key products *Vetoryl, Felimazole* and *Equipalazone* continued to show forward momentum. Global revenue from *Vetoryl* was £5.1 million, 13.1% up on last year whilst *Felimazole* grew by 15.6% to £3.9 million and *Equipalazone* grew by 12.5% to £3.0 million.

Of our other key products, the *Vetivex* range grew by 13.5% to £1.7 million whilst *Canaural, Fuciderm* and *Fucithalmic* acquired with *VetXX* made revenue contributions of £1.9 million, £1.4 million and £1.4 million respectively in the period since acquisition.

Revenue from our US operation grew from £374,000 to £4.6 million with a full year of marketing the Pharmaderm range of products.

Revenue from instruments, consumables and equipment fell by 6.4% to £3.6 million. This reflects our decision to reduce the range of products sold and focus on the key brands.

In the period prior to acquisition, the *VetXX Specific* range had been in long term decline. However, in the six months since acquisition, growth of 4.6% was achieved compared to the equivalent period last year.

Revenue from third party contract manufacturing grew by 39.2% to £8.7 million with the benefit of new contracts being realised.

Product development expenditure charged to the income statement was £2.4 million, a 46.4% increase compared to last year. A further £1.3 million of development expenditure was capitalised giving a total cash spend for the year of £3.7 million compared to £3.3 million last year. In future periods, a greater proportion of expenditure will be charged to the income statement rather than being capitalised.

Adjusted operating profit for the division increased by 76.4% from £6.1 million to £10.8 million, of which £2.7 million was contributed by *VetXX*.

Our veterinary wholesaling business, *NVS*, grew revenue by 10.5% compared to last year. This was ahead of GB market growth as measured by GfK of 10.0%. Continued cost efficiencies meant that *NVS* increased its operating profit by 14.0%.

Revenue from our Laboratories business grew by 23.4% over last year, including a full year contribution from LVL. However, increased infrastructure costs meant that the operating profit achieved was slightly below last year's level.

Unallocated Central Costs

Unallocated central costs increased by £0.5 million to £2.3 million. This increase was due to salaries and an increase in the charge relating to share-based payments.

Return on Capital Employed

Return on capital employed reduced from 37.5% to 23.3%. This was due to the acquisition of *VetXX* and the significant increase in the asset base arising therefrom.

Net Finance Expense

The adjusted net finance expense increased from £1.23 million to £2.29 million. This was a result of the increased borrowing levels taken on in January 2008 to partially finance the acquisition of *VetXX*.

The adjusted net finance expense was covered 8.4 times by adjusted operating profit (2007: 11.3 times).

Taxation

The effective tax rate was 28.9%, slightly lower than the standard UK rate for the year of 29.5% with the reduction in the UK corporation tax rate from 30% to 28% being effective for three months of the financial year. The main item contributing to this undercharge was profits from our US subsidiary which were offset by trading losses brought forward.

Directors' Business Review

Earnings per Share and Dividend

Adjusted earnings per share increased by 23.2% to 20.81p.

The Board is proposing a final dividend of 5.50p per share which, when added to the interim dividend of 2.75p per share already paid, gives a total dividend for the year of 8.25p, a 10.0% increase over the 2007 figure of 7.50p. This takes into account the new shares issued to partially fund the *VetXX* acquisition.

The total dividend is covered 2.0 times by profit after tax after adding back amortisation of acquired intangibles (2007: 2.2 times).

Cash Flow

The Group achieved a cash conversion rate (defined as cash generated from operations as a percentage of operating profit) of 114.1% (2007: 103.5%). If amortisation of acquired intangibles is added back to operating profit, then the conversion rate was 94.2% (2007: 103.3%). During the year, the Group made a £1.5 million working capital investment in the US subsidiary and also increased the inventory of *Vetoryl* Capsules ahead of the US launch.

The most significant cash outflow during the year was the acquisition of *VetXX*. The total amount paid (including expenses and repayment of *VetXX*'s existing borrowings) was £65.2 million. This was funded by the issue of 11,624,544 new ordinary shares raising £33.7 million net of issue costs and a new bank facility.

Financial Position at the end of the Year

	2008 £'000	2007 £'000
Non-current assets		
Intangible assets	**90,375**	13,089
Property, plant and equipment	**8,224**	5,739
Deferred tax assets	**1,053**	—
Total non-current assets	**99,652**	18,828
Working capital	**17,284**	13,264
Current tax liability	**(2,824)**	(2,464)
Deferred tax liabilities	**(15,316)**	(147)
Net (borrowings)/cash	**(26,997)**	1,027
Equity Shareholders' funds	**71,799**	30,508

Equity Shareholders' funds have more than doubled compared to the equivalent point last year. This reflects the issue of new equity and retained profit for the year.

The major additions to intangible assets and property, plant and equipment related to the *VetXX* acquisition. Of the £4.0 million increase in working capital, £3.0 million was due to *VetXX*. Inventory days were 43, slightly behind the 42 days for last year. Receivable days showed an improvement from 40 days to 39 days.

The large increase in the deferred tax liability relates to the intangible assets recognised on the acquisition of *VetXX*.

The increased borrowings taken on to partially fund the *VetXX* acquisition meant that there were net borrowings at 30 June 2008 of £27.0 million compared to net cash at 30 June 2007 of £1.0 million. As normal, due to the working capital cycle of the Group, net borrowings will increase at the next reporting date of 31 December 2008.

Risks and Uncertainties

Like every business, the Group faces risks and uncertainties in both its day-to-day operations and the achievement of its long term strategic objectives. The Group has well-established procedures for identifying and controlling risk. Significant risks and procedures to control them are reviewed at Divisional Board Meetings on a monthly basis and by the Main Board on a quarterly basis.

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

Regulatory

Like the human pharmaceutical industry, the veterinary industry is tightly regulated. Our major operational sites are required to be licensed either by the MHRA or the Home Office, and our products by the Veterinary Medicines Directorate ("VMD") and the equivalent overseas agencies. Inspections by these bodies are carried out regularly.

All of our new pharmaceutical products are required to be approved for sale by the relevant Regulatory Authority in each territory.

The main regulatory risks faced by the Group are:

- Failing to operate our businesses in accordance with their licenses resulting in disruption to operations;
- Potential reclassification of major pharmaceutical products from prescription only to a lower category causing loss of revenue;
- Failure to satisfy the regulatory authorities on new product submissions causing product launches to be delayed or aborted;
- Changes to laws or adverse reactions causing threat to existing products.

Competitor Products

The launching of competitor products against our key pharmaceutical brands could have an impact on revenues. One such competitor product has been launched during the last financial year.

Corporate Veterinary Practices

The growth of corporate veterinary practices has been a feature of the veterinary market over the last few years. Most corporates currently trade with *NVS*. The rise of corporate practices provides opportunities and risks to the Group.

The opportunities arise when a corporate group acquires veterinary practices not currently trading with *NVS*. The risks arise from the potential increased buying power of corporates causing pressure on gross margin. Additionally, a payment default could cause a material impairment charge.

General Market Conditions

The overall veterinary market has shown robust growth for many years. However, there have in the past been periods when the market has suffered a significant slowdown. This can be caused by external “shocks” such as BSE or general economic conditions. Our past experience has been that these slowdowns have been short term in nature. However, given the relatively high operational gearing of *NVS*, in particular, any future market slowdown could have a material effect on short term profitability.

Although there is no evidence as yet that the current general economic slowdown has significantly impacted the veterinary market, such an impact cannot be ruled out if the economic downturn is particularly severe.

Summary of Risks

The Group has ongoing and embedded procedures in place to control and, as far as possible, mitigate against the above risk factors. It must be emphasised, however, that these procedures can only control rather than eliminate risk.

Ian Page
Chief Executive

Simon Evans
Group Finance Director

Board of Directors

Executive Directors

Ian Page
Chief Executive
Aged 47, Ian joined the Group's principal trading subsidiary *NVS* at its formation in 1989. He was also part of the MBO in 1997. In 1998, he was appointed Managing Director at *NVS*. He joined the Board in 1997 and became Group Chief Executive in November 2001. Ian has played a key role in the development of the Group's growth strategy. Prior to joining the Company, he gained extensive knowledge and experience through various positions he held within the pharmaceutical and veterinary arena.

Simon Evans BCom, ACA
Group Finance Director
Aged 44, Simon qualified as a Chartered Accountant in 1988 and spent seven years at KPMG. He joined *NVS* in 1992 and was appointed Group Finance Director in 1997 following the MBO. He played a major role in the management buy-out of the Group from Lloyds Chemists in 1997 and its subsequent listing on the London Stock Exchange in 2000.

Ed Torr
Managing Director of Dechra Veterinary Products Europe
Aged 48, Ed joined *NVS* as Sales Director in 1997 and was appointed Managing Director of Arnolds and Dales in 1998. He was appointed Development Director in 2003 and Managing Director of Dechra Veterinary Products Europe in January 2008, following completion of the acquisition of *VetXX*. Prior to joining the Group, he worked within the animal healthcare sector for a number of companies including ICI, Wellcome and Alfa Laval Agri.

Non-Executive Directors

Michael Redmond †•
Non-Executive Chairman
Aged 64, 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. Michael is Chairman of the Nomination Committee.

Malcolm Diamond MBE *†•
Senior Non-Executive Director
Aged 59, Malcolm joined the Board in August 2000. He is also a Non-Executive Director at the Unicorn AIM VCT 11 Investment Fund. His other Directorships include Chairman at CWO Limited and My Marketing Limited. In addition, Malcolm advises a number of private businesses on their strategic planning, management development programmes and marketing initiatives. Malcolm was previously Chief Executive at Trifast plc, a role he held for 18 years. Malcolm is Chairman of the Remuneration Committee.

Neil Warner BA, FCA, MCT *†•
Non-Executive Director
Aged 55, Neil joined the Board in May 2003. He is Finance Director at Chloride Group PLC, a position he has held since 1997. Prior to this, he spent six years at Exel PLC (formerly Ocean Group PLC and acquired by Deutsche Post in December 2005) where he held a number of senior posts in financial planning, treasury and control. He has also held senior positions in Balfour Beatty PLC (formerly BICC Group plc), Alcoa and PricewaterhouseCoopers. Neil is Chairman of the Audit Committee.

* Member of the Audit Committee
† Member of the Remuneration Committee
• Member of the Nomination Committee

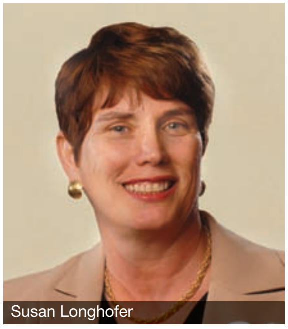
Senior Management


Martin Riley


Mike Eldred


Mike Annice


Peter Graham


Susan Longhofer


Barbara Johnson


Zoe Bamford

Senior Management

Martin Riley
Managing Director, National Veterinary Services
Aged 44, Martin was appointed Managing Director of National Veterinary Services in 2005. A graduate of the Welsh Agricultural College in Aberystwyth, Martin has extensive knowledge of the animal healthcare and veterinary sectors. Before joining the Group, he previously held several senior positions over an 18 year period with the pharmaceutical manufacturer Merial Animal Health.

Mike Eldred BA, MBA
President, US Operations, Dechra Veterinary Products
Aged 38, Mike was appointed in November 2004 to head up the Group's sales and marketing drive in the United States. He has over 12 years' professional experience in the US animal health sector, having held senior positions in business development, sales and operations at Virbac Corporation, and international marketing and operational positions at Fort Dodge Animal Health. Mike began his career with Sanofi Animal Health where he managed the pharmaceutical and biological production planning activities.

Mike Annice BSc (Hons), MRPharmS
Managing Director, Dales Pharmaceuticals
Aged 48, Mike graduated from The School of Pharmacy at Aston University in 1980. Prior to joining Dales in 1990 as Site Manager, he worked within the Hospital Pharmacy Service, Glaxo and SSS International (formerly Cupal Pharmaceuticals). He was appointed Technical Director at the time of the Group's MBO. Mike was appointed Managing Director at Dales in March 2002.

Dr Peter Graham BVMS, PhD, CertVR, DipECVCP, MRCVS
Managing Director of NationWide Laboratories and Cambridge Specialist Laboratory Services
Aged 40, Peter was appointed Managing Director of NationWide Laboratories and Cambridge Specialist Laboratory Services in 2003. Peter graduated from the University of Glasgow Vet School in 1989, where he remained as Small Animal House Physician and Research Scholar until 1995. During this period he was awarded the RCVS Certificate in Veterinary Radiology and a PhD on the Epidemiology and Management of Canine Diabetes Mellitus. He contributed to the initial commercialisation of biochemistry and endocrinology lab services at the University of Glasgow. Between 1995 and 2002, Peter was Assistant Professor at the world's largest specialist veterinary endocrinology laboratory in Michigan State University, USA, leading it as Section Chief from 2000. He was awarded Diplomate of the European College of Veterinary Clinical Pathologists in 2002.

Dr Susan Longhofer DVM, MS, DipACVIM
Product Development and Regulatory Affairs Director
Aged 50, Susan joined the Group in June 2005. She has 18 years' industry experience in development and worldwide registration of animal health pharmaceuticals, having worked for multinational corporations including Virbac Corporation, Heska Corporation and Merck Research Laboratories. Her veterinary degree is from Texas A&M University and her MS is from the University of Wisconsin, Madison. She was awarded Diplomate status in the American College of Veterinary Internal Medicine in 1992. She has held a number of Academic and Professional Honours including membership on the Board of Directors of the American Heartworm Society and the Executive Council of the American Academy of Veterinary Pharmacology and Therapeutics.

Barbara Johnson Chartered MCIPD
Group HR Director
Aged 47, Barbara joined the Group in April 2008. She has 19 years' human resources management experience within the food and drink industry covering manufacturing, retail, wholesale and distribution. Barbara has previously worked for Allied Domecq plc, Geest plc and most recently Nicholl Food Packaging Limited. Prior to joining private industry, Barbara served for 10 years in the British Army.

Company Secretary

Zoe Bamford LLB (Hons)
Company Secretary and Solicitor
Aged 34, Zoe was appointed as Company Secretary in July 2007. She qualified as a solicitor in April 2000. Prior to joining the Group she worked at Eversheds LLP and Brammer plc.

Directors' Report

The Directors present their report and audited financial statements for the year ended 30 June 2008.

Principal Activity, Business Review and Future Developments

The Company acts as a holding company to all the Group's subsidiaries. The Group itself develops, markets and sells veterinary pharmaceuticals and specialist pet diets into international companion animal markets. The Group also distributes veterinary products, including pharmaceuticals, specialist pet diets and instruments to veterinary practices within the United Kingdom. Additionally, the Company manufactures pharmaceuticals for the Group and for third parties and also provides diagnostic services to veterinary practices within the United Kingdom.

The Chairman's Statement and the Directors' Business Review on pages 8 to 27 provide a review of the Group's business, likely future developments and includes information in respect of:

- Development and performance of the Group in the year;
- Principal risks and uncertainties faced by the Group; and
- Key Performance Indicators used to measure the Group's performance.

Details of the Group's policy in relation to its employees, health, safety and environment are disclosed on pages 45 and 46, and details of the Group's policies in relation to Corporate Governance are disclosed on pages 33 to 36.

Share Capital

The authorised share capital of the Company as at 30 June 2008 was £1,000,000 divided into 100,000,000 ordinary shares of 1p each. As at the end of the financial year, 65,241,909 fully paid ordinary shares were in issue which included 813,666 ordinary shares issued during the year in connection with the exercise of options under the Company's share option schemes. Each share carries the right to one vote on a poll at a general meeting of the Company and are all listed on the London Stock Exchange.

The rights and obligations attaching to the Company's shares are contained within the Articles of Association (see following page), a copy of which can be obtained by writing to the Company Secretary. There are no restrictions on transfer or limitations on the holding of shares in the Company, nor are there any requirements to obtain prior approval in respect of any transfers of the shares.

At the Annual General Meeting of the Company held on 17 October 2007, the Company was authorised to purchase up to 5,280,370 of its ordinary shares, representing 10% of the issued share capital of the Company at 30 June 2007. No shares were purchased under this policy during the financial year. A resolution will be put to Shareholders at the forthcoming Annual General Meeting to renew this authority for a further period of one year.

Results and Dividends

The results for the year and financial position at 30 June 2008 are shown in the consolidated income statement on page 50 and balance sheet on page 51. The Directors recommend the payment of a final dividend of 5.50p per share which, if approved by Shareholders, will be paid on 12 December 2008 to Shareholders registered at 14 November 2008. An interim dividend of 2.75p per share was paid on 11 April 2008, making a total dividend for the year of 8.25p (2007: 7.50p). The total dividend payment is £5,368,000 (2007: £3,957,000).

Directors

The Constitution of the Board and of its Committees, together with biographical notes on the Directors, is shown on page 28. Details of Directors' attendance at Board and Committee meetings and a statement on Board Evaluation is set out in the Corporate Governance Report on pages 33 to 36.

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

The interests of the Directors in the share capital of the Company are shown in the Remuneration Report on pages 38 to 44. During the year no Director had a disclosable material interest in any contract or arrangement with the Company or any of its subsidiaries. Information in relation to the Directors' remuneration is disclosed in the Remuneration Report on pages 38 to 44.

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

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

Articles of Association

Details of a resolution to amend the Articles of Association are included in the Circular to Shareholders.

A copy of the Articles of Association detailing the proposed amendments will be available for inspection at Hewitt New Bridge Street, 6 More London Place, London, SE1 2DA during normal business hours from 19 September until the date of the Annual General Meeting on 7 November 2008. A copy will also be available at the Annual General Meeting.

Political and Charitable Contributions

Charitable donations made during the year amounted to £2,040 (2007: £750). No political donations were made during the year (2007: Nil).

Research and Development

The Group has a structured research and development programme with the aim of identifying and bringing to market new pharmaceutical products. Investment in research and development is seen as key to further strengthen the Group's competitive position. The expense on this activity for the year ended 30 June 2008 was £2,408,000 (2007: £1,645,000) and a further £1,331,000 less £123,000 amortisation (2007: £1,680,000 less £52,000 amortisation) was capitalised as development costs.

Employees

The Group has a policy of offering equal opportunities to employees at all levels in respect of conditions of work. Throughout the Group it is the intention of the Directors to provide possible employment opportunities and training for disabled people and employees who become disabled, having due regard to aptitude and abilities. Further details can be found in the Social, Ethical and Environmental Responsibilities Statement on pages 45 and 46.

Acquisitions

On 15 January 2008 the Group successfully completed the acquisition of *VetXX* Holdings A/S for a total consideration of £65.2 million (including expenses). *VetXX* Holdings A/S is based in Denmark and operates in nine other European countries, namely Norway, Finland, Sweden, Holland, Spain, Portugal, France, Ireland and the UK. More information in relation to the acquisition and its integration within the Group can be found in the Business Review on pages 10 to 23.

Suppliers

The Company does not follow any code of practice or standard regarding the payment of suppliers but seeks to agree the terms of payment with suppliers prior to the placing of business and it is the Company's policy to settle liabilities by the due date. At 30 June 2008, the Group had an average of 73 days (2007: 74 days) purchases outstanding in creditors. The Company had an average of nil days (2007: nil days) purchases outstanding in creditors.

Significant Agreements

The Company has entered into a number of significant agreements which ordinarily would be terminable upon a change of control of the Company, such as:

— Banking facilities agreement; and
— Various distribution agreements.

Substantial Shareholdings

In accordance with the Disclosure Rules and Transparency Rules of the Financial Services Authority, as at 26 August 2008, the Company had been notified of the following interests exceeding the 3% notification threshold:

	No. of Shares	% of Shares Held
Schroder Investment Management	8,147,749	12.49
Legal & General Investment Management	5,053,820	7.75
Rathbone Unit Trust Management	4,664,601	7.15
BlackRock Investment Management (UK)	3,815,060	5.85
Standard Life Investment Management	3,359,279	5.15
Insight Investment Management	3,244,427	4.97
Invesco Asset Management	2,089,080	3.20

Directors' Report

Audit Information

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

Auditors

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

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

The statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements can be found on page 47.

Directors' and Officers' Liability

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

Annual General Meeting

The 2008 Annual General Meeting of the Company will be held at 9.00 am on 7 November 2008. In accordance with the Combined Code the notice of the meeting together with the Annual Report and financial statements are posted to Shareholders at least 20 working days before the Annual General Meeting. The package sent to Shareholders includes a summary of the business to be covered at the Annual General Meeting. 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 and will be made available as soon as reasonably practicable after the meeting on the Company website at www.dechra.com.

The notice of meeting, which includes the special business to be transacted at the Annual General Meeting, is included within the Circular to Shareholders.

By order of the Board

Z Bamford

Zoe Bamford
Company Secretary
Dechra Pharmaceuticals PLC
2 September 2008

Corporate Governance

The Board recognises its accountability to Shareholders and is committed to maintaining high standards of corporate governance. In the opinion of the Directors, the Company has complied throughout the period under review with Section 1 of the 2006 FRC Combined Code on Corporate Governance (the Code) in all aspects.

Application of the principles of the Combined Code

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

DIRECTORS

The Board

The Board is collectively responsible for the success of the Company and provides entrepreneurial leadership within an embedded framework which allows for the ongoing assessment and management of risk. There is a formal schedule of matters reserved to the Board. These include the approval of corporate policies, strategy, plans and budgets, acquisitions and disposals of companies or businesses, major investment and financial decisions and major management or organisational changes.

At all Board meetings an agenda is established reflecting the Directors' responsibilities. This comprises reports from the Chief Executive, Finance Director and Operating Company Directors, reports on the performance of the business, major items of strategic planning, investments and significant policy issues.

The Board has formally delegated specific responsibilities to Board Committees, including the Audit, Remuneration and Nomination Committees. The Board will also appoint committees to approve specific processes as deemed necessary.

The Board is scheduled to meet eleven times per annum with additional meetings called if necessary, including two meetings where the full year and half year results are dealt with.

Attendance at meetings during the year to 30 June 2008 was as follows:

Name	Board (11 meetings)	Audit (3 meetings)	Remuneration (5 meetings)	Nomination (1 meeting)
M Redmond	11	n/a	5	1
MM Diamond	11	3	5	1
NW Warner	10	3	5	1
ID Page	11	n/a	n/a	n/a
SD Evans	11	n/a	n/a	n/a
ETW Torr	11	n/a	n/a	n/a

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

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

Should Directors have any concerns which cannot be resolved about the running of the Company or a proposed action, they have the right to ensure this is recorded in the minutes. Further, on resignation, should a Non-Executive Director have any concerns, the Chairman would invite him to provide a written statement for circulation to the Board.

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

Chairman and Chief Executive

There is a clear division of responsibilities between the Chairman and Chief Executive. During the year the Board reviewed and approved new Terms of Reference in respect of the Chairman and the Chief Executive. The Chairman is responsible for the leadership and effective working of the Board and to ensure that each Director, in particular the Non-Executive Directors, are able to make an effective contribution to the Board. The Chief Executive is responsible for the management of the Company, implementing policies and strategies determined by the Board.

The Chairman, at the time of his appointment, did meet and continues to meet the independence criteria set out in the Code. His appointment was rigorously reviewed by the Board last year and they considered that he continues to fulfil his role to the highest standard, providing appropriate support and direction to the Company and its Executives.

Board Balance and Independence

The Board consists of the Non-Executive Chairman, two other Non-Executive Directors and three Executive Directors (including the Chief Executive). Taking into account the provisions of the Code, the Board has determined that each of the Non-Executive Directors is independent and free from any relationships which could compromise their independent judgement. Further, the Board considers it is of sufficient size for the discharge of its duties and that the balance of skills and expertise is appropriate for the requirements of the business. The details of the Board of Directors are shown on page 28 and in the Directors' Report on page 30.

Corporate Governance

The Board considers MM Diamond to be the Senior Independent Director and he is available to Shareholders if they have concerns which contact through the normal channels have failed to resolve or for which such contact is inappropriate.

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

Appointments to the Board

The Board has an established Nomination Committee to lead the process for Board appointments and to make recommendations to the Board. The Nomination Committee comprises M Redmond (Chairman), MM Diamond, and NW Warner. The Chairman will not chair the Committee meeting when it is dealing with the appointment of a successor to the Chairman.

The Nomination Committee normally meets once a year and its terms of reference are available on the Company website at www.dechra.com.

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

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

There have been no appointments to the Board during the year to 30 June 2008.

Other significant commitments of the Chairman and the Non-Executive Directors were disclosed to the Board before appointment and the Board is notified of any subsequent changes. None of the Executive Directors hold a Non-Executive Directorship.

The letters of appointment of the Non-Executive Directors will continue to be available for inspection at the Company's registered office. Both the letters of appointment of the Non-Executive Directors and the Service Contracts of the Executive Directors will be on display at the forthcoming Annual General Meeting.

Information and Professional Development

The Directors are supplied in a timely manner with all relevant documentation and financial information to assist them in the discharge of their duties. This includes information on the Company's operational and financial performance. At least one Board meeting per year is held at one of the Group's operational sites to enable the Directors to update and maintain their knowledge and familiarity with the Group's operations.

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.

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. Both the appointment and removal of the Company Secretary is a matter for the Board as a whole.

The Board has an approved procedure for all Directors to take independent professional advice at the Company's expense.

Performance Evaluation

The Board has developed a formal process of reviewing its own effectiveness and the effectiveness of the Board Committees. This is based on a combination of written reviews by individual Directors, discussion with the Chairman and review by the Board as a whole. As part of this process the Board considers the performance of individual Directors. This process has been undertaken during the year.

Re-election

On appointment, the Directors are required to seek election at the first Annual General Meeting following appointment. One-third of the Board are required to retire from office by rotation at the Annual General Meeting subject to all Directors having submitted themselves for re-election every three years. At the forthcoming Annual General Meeting ID Page and NW Warner retire by rotation in accordance with the Articles of Association. The Board strongly supports their re-election.

REMUNERATION

Details of Directors' remuneration are set out in the Directors' Remuneration Report at pages 38 to 44. This details the Company's compliance with the Code's requirements with regard to remuneration matters. The terms of reference of the Remuneration Committee are available on the Company website at www.dechra.com.

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

The respective responsibilities of the Directors and the auditors in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities and the Auditors' Report on pages 47 and 48 respectively.

Internal Control

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

The Group has a well-established, ongoing and embedded framework of internal financial and operational control for identifying, evaluating and managing the risks faced by the Group. This framework has been in place throughout the year under review, and has continued up to the date of approval of the Annual Report.

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 and is based upon a summary of information prepared and reviewed by divisional management on an ongoing basis. The current review was prepared to 30 June 2008.

The Group's key systems of 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.

Audit Committee and Auditors

Information relating to the Audit Committee is set out in the Audit Committee Report on page 37. This details the Company's compliance with the Combined Code's requirements in respect of audit matters. The terms of reference of the Audit Committee are available on the Company website at www.dechra.com.

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 for the period from 1 July 2007 to the date of approval of the financial statements which has included quarterly business risk reviews and quarterly internal control reporting.

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

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

Corporate Governance continued

RELATIONS WITH SHAREHOLDERS

Dialogue with Institutional Shareholders

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

Constructive use of the Annual General Meeting

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

Notice of the meeting, together with the Annual Report and financial statements, is posted to Shareholders not less than 20 working days prior to the date of the Annual General Meeting. The information sent to Shareholders includes a summary of the business to be covered at the Annual General Meeting, where a separate resolution is prepared for each substantive matter. When a vote is taken on a show of hands, the level of proxies received for and against the resolution and any abstentions are disclosed at the meeting and will be made available as soon as practicable after the meeting on the Company website at www.dechra.com.

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.

Audit Committee Report

Membership

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

NW Warner (Chairman of the Committee)
MM Diamond (Senior Independent Director)

The Board considers that NW Warner has recent and relevant financial experience gained through his position as Finance Director of Chloride Group PLC, as required by the Combined Code on Corporate Governance.

The Company Secretary acts as secretary to the Committee.

Responsibilities

The main role and responsibilities of the Committee are set out in the written terms of reference which are available on the Company website at www.dechra.com. The main responsibilities are:

- To monitor the integrity of the financial statements of the Company, reviewing the annual and half year reports in detail to ensure they present a balanced assessment of the Company's position and prospects which is understandable to Shareholders and potential investors.
- To review the effectiveness of the Company's internal controls and risk management systems as described on pages 35 and 36 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.

In the performance of its duties the Committee had access to the services of the external auditors and is at liberty to obtain outside professional advice as necessary. Further, the external auditors have direct access to the Committee Chairman outside the formal Committee meetings.

The Committee monitors and reviews the effectiveness of internal control activities. Given the systems of internal control discussed on page 35, and due to the present size of the Group, the Committee currently believes that an internal audit function is not required.

Meetings

The Committee met three times during the year, timed to coincide with the financial and reporting timetable of the Company; namely July, August and February. Members' attendance at the meetings held during the year can be found on page 33.

At the meeting in July the Committee considered and agreed with the external auditors the approach and overall scope of the audit to be commenced in respect of the 2007 year end. The Committee also carried out a formal review of its own effectiveness led by the Committee Chairman.

A further Committee meeting was held in August which was primarily concerned with a review of the draft financial statements and draft preliminary statement prior to their submission to the Board. The Committee also considered, amongst other matters, a review of internal controls, auditor effectiveness and amendments to the Company's Whistle-Blowing Policy, a copy of which can be found on the Company website at www.dechra.com.

At the meeting in February, in addition to routine matters the Committee also considered the half year results and draft half year announcement.

The external auditors attend meetings of the Committee other than when their appointment or performance is being reviewed. The Chief Executive, Chairman, Group Finance Director and other senior finance staff attend as appropriate.

The performance, cost and independence of the external auditors is reviewed annually by the Committee, together with a review of the level of service provided by the external auditors to the Group.

The Committee has discussions at least once a year with the auditors without the management being present.

The scope of the year's audit is discussed in advance by the Committee and audit fees are reviewed and approved by the Committee. Professional rules require rotation of the Group Audit Engagement Director every five years and this took place during the 2005/2006 financial year.

The annual appointment of the auditors by our Shareholders at the Annual General Meeting is a fundamental safeguard but, beyond this, controls are in place to ensure that additional work performed by the auditors is appropriate and subject to proper review as discussed below.

Auditor Independence

With respect to non-audit assignments undertaken by the external auditors, the Company has developed a policy to ensure that the provision of such services does not impair their independence or objectivity. When considering the use of external auditors to undertake non-audit work, the Chief Executive and Group Finance Director do at all times give consideration to the provisions of the Smith Report with regard to the preservation of independence.

The Chief Executive and the Group Finance Director have authority to commission the external auditors to undertake non-audit work where there is a specific project with a cost not exceeding £25,000 and total non-audit fees in any year do not exceed £80,000. This work has to be reported to the Audit Committee at the meeting where the Annual Report is considered. If the cost is expected to exceed the established levels then the prior approval of the Audit Committee is required before the work is commissioned. In all cases, other potential providers are adequately considered.

During the current year, the external auditors were commissioned to carry out extensive due diligence, working capital and reporting accountant work in respect of the *VetXX* acquisition. The external auditors were considered most appropriate to perform this work given both their knowledge of the existing business and the requirement to report on the existing as well as the enlarged Group. The fees paid to the external auditors for this work were in excess of the limits above, and prior Board approval was therefore obtained.

The external auditors annually confirm their policies on ensuring audit independence and provide the Committee with a report on their own audit quality procedures.

Effectiveness Review

During the year, the Committee reviewed its own effectiveness through a process led by the Committee Chairman. The results of the review were advised to the Committee and the Board.

Based on the Committee's review of the performance of the external auditors and on the planning and execution of the annual audit, the Committee has recommended to the Board that a resolution to reappoint KPMG Audit Plc be proposed at the forthcoming Annual General Meeting.

Neil W. Warner.

NW Warner
Chairman — Audit Committee
2 September 2008

Our Business
Our Performance
Our Governance
Our Accounts

Directors' Remuneration Report

The Report is presented in accordance with the relevant provisions of the Combined Code and the Directors' Remuneration Report Regulations 2002 (the Regulations). The Report is divided into two sections, unaudited and audited information, in accordance with the Regulations. The audited information commences on page 43.

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

This Remuneration Report will be submitted at the 2008 Annual General Meeting for the approval of the Shareholders.

The Remuneration Committee

The Committee consists exclusively of independent Non-Executive Directors and presently comprises MM Diamond, M Redmond and NW Warner. The Committee is chaired by MM Diamond and met five times during the year. The Chief Executive attended all meetings in order to assist on matters concerning remuneration of other senior Executives within the Group; however, the Chief Executive was not present during the part of the meetings where his own remuneration was discussed. The attendance record of the Committee members is detailed within the Corporate Governance Report on page 33. The Committee may seek any information it requires from any employee or Director, and all employees and Directors are required to co-operate with any request made by the Committee. Z Bamford (Company Secretary) also provided information to the Committee during the year.

During the year the Committee also received independent Executive remuneration advice (excluding advice in respect of pensions) from remuneration consultants, Hewitt New Bridge Street (HNBS). The level of advice received is discussed in further detail within this Report.

The Committee has its own terms of reference, which are approved by the Board. These were reviewed during the year to ensure compliance with the Combined Code. Copies can be obtained from the Company Secretary or via the Company website at www.dechra.com. MM Diamond and Z Bamford are available to Shareholders to discuss remuneration policy.

Role of the Committee

The Committee is responsible for determining, on behalf of the Board, the framework of remuneration for the Executive Directors and for ensuring and reviewing the ongoing appropriateness and relevance of the remuneration policy. When setting the Executive Directors' remuneration packages the Committee always considers (i) remuneration packages payable to Executives employed in comparable companies and (ii) pay increases within the Group more generally. The Committee also monitors remuneration practice amongst other senior Executives and sets the Chairman's fee level.

Remuneration Policy for Executive Directors

Dechra's policy on Executive Directors' remuneration has been further developed by the Committee during the year. The resultant policy is to provide Directors' remuneration packages that:

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

Remuneration Review

Every two years the Committee obtains an independent review of its Executive Directors' remuneration packages to assess whether they are consistent with the Company's remuneration policy. Existing remuneration arrangements comprised:

- Salary: Ian Page — £300,000, Simon Evans — £175,000, Ed Torr — £160,000
- Pension worth 14% of salary
- Sundry benefits in kind, including fully expensed car and private medical insurance
- Annual Bonus worth up to 60% of salary based on profit targets and personal objectives
- Annual share awards under the Executive Incentive Plan (EIP) worth up to 50% of salary based on Total Shareholder Return (TSR) relative to other FTSE Small Cap companies

During 2008 HNBS carried out the latest independent review for the Committee and their primary conclusions were that:

- the value of the Executive Directors' existing remuneration packages was significantly below market levels both compared to direct peers (being a selection of companies drawn from the Pharmaceuticals/Biotechnology, Health Care Equipment and Services Sectors) and also compared to companies drawn from all sectors of a similar market capitalisation and turnover;
- existing remuneration arrangements were skewed significantly more towards fixed pay rather than performance-related pay than is standard;
- the relative simplicity of the existing incentive structure (namely an annual bonus and a single long-term scheme) was valued by Executives;
- the existing use of a TSR performance target to determine the vesting of EIP awards was felt to be appropriate, particularly so as to provide alignment with Shareholder interests;
- although the current Executive Directors have considerable shareholdings, the absence of a formal share ownership guideline was noted as being out of step with current best practice.

In light of the review, the Committee proposed a number of alterations to the remuneration structure which were discussed with the Company's top ten Shareholders as well as The Association of British Insurers (ABI) and Research, Recommendations and Electronic Voting (RREV). The revised remuneration structure, which results in a relatively balanced split between the fixed and performance-related elements of the ongoing remuneration arrangements, is outlined in the following sections.

The revised structure does involve a significant increase in potential pay rewards for the Executive Directors. The Committee felt this was required and appropriate for a number of reasons:

- The Group has continued to grow rapidly with the result that the value of Executive packages is significantly behind the market. Additionally, individual Executive roles have become larger as a result of the increased complexity and geography of the Group as it evolves into an international business. The Committee is very keen to retain what it regards as a highly marketable Executive team that has been key to recent growth and remains central to the future prospects of the Group. Accordingly, whilst not obsessed with chasing the market, the Committee needs to ensure that packages are suitably competitive to retain these Executives. This has necessitated significant adjustments so as to bring them more into line with mid-market levels.
- The largest percentage pay increase is attributable to ETW Torr and reflects the significant expansion of his role since the recent acquisition of *VetXX* when he became the Managing Director of *VetXX* (now known as DVP EU).
- Approximately two-thirds of the increase in the potential value of the remuneration packages is performance-related so will only be achievable if Dechra continues to perform strongly. Performance targets have also been made more stretching for the annual bonus and a lower proportion of share awards will vest in future for median TSR performance.

In summary, the Committee believes that the proposals will enable the Company to provide a remuneration package that is competitive, challenging and, by rewarding Executives for significant financial and share price out-performance, aligned with the interests of its Shareholders.

Base Salary

The Committee has agreed that, so as to remain market competitive, base salaries should be increased with effect from 1 July 2008 to: ID Page — £350,000, SD Evans — £220,000 and ETW Torr — £210,000.

Pensions

The Company operates a Group Stakeholder personal pension scheme which has been effective since 1 July 2005. The Company will continue to contribute 14% of salary on behalf of the Executive Directors.

Benefits in Kind

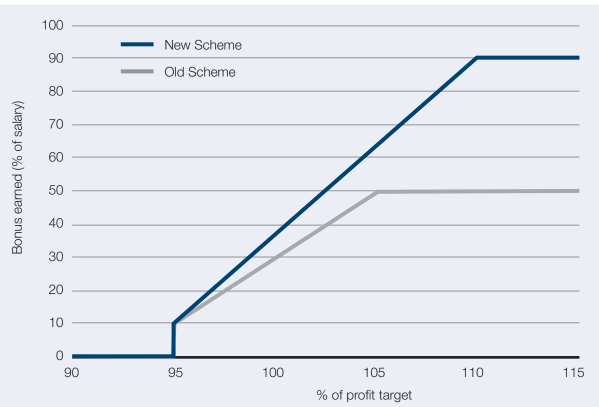
The Executive Directors receive other benefits, including the use of a fully expensed car, medical cover and life assurance scheme.

Annual Bonus

The Executive Bonus Scheme rewards Executive Directors for achieving operating efficiencies and profitable growth in the relevant year by reference to challenging but achievable operational targets determined at the beginning of the financial year.

Executive bonuses for the year ended 30 June 2009 are to be calculated as follows:

- Annual cash bonus potential will be increased from 60% of salary to 100% of salary.
- As in the current bonus scheme, up to 10% of salary can be earned based on the achievement of personal objectives. The personal objectives of the Chief Executive will be set by the Chairman, and those of the other Executive Directors will be set by the Chief Executive. This element of the bonus is payable at the sole discretion of the Remuneration Committee.
- Up to 90% of salary (compared to 50% of salary in the current bonus scheme) can be earned based on Group profit targets set at the beginning of the financial year (with payments as outlined in the chart below).



The increase in annual bonus potential is part of the overall package of measures that the Committee believes is required in order to provide the Directors with an appropriately competitive and incentivising remuneration package.

However, as the chart illustrates, to counterbalance the increase in bonus potential, the revised scheme requires a tougher out-performance of 'target' (110% rather than 105% in the existing scheme) in order for the maximum bonus to be payable. As a result, there is only a limited increase in bonus payable for achieving target performance. The Committee considers that this should ensure that incentives at the higher end of the range are payable only for demonstrably superior Group performance.

Directors' Remuneration Report continued

Long-Term Incentives

No further grants can be awarded to Executive Directors under the EIP which was granted approval by Shareholders at the Annual General Meeting on 23 October 2003 and expires in 2008. Shareholder approval will therefore be sought at the forthcoming Annual General Meeting, to be held on 7 November 2008, for a new long-term share scheme (2008 LTIP).

As with the EIP, the 2008 LTIP will seek to provide a clear link between the remuneration of the Executive Directors and the creation of value for Shareholders by rewarding the Executive Directors for the Company's performance in terms of relative TSR.

The 2008 LTIP, subject to Shareholder approval, will allow the Executive Directors and selected senior Executives of the Company to receive a conditional award of performance shares worth up to 150% of base salary (200% of salary in exceptional circumstances) although initially no awards worth more than 100% of salary will be granted.

Vesting of performance shares will normally occur provided that:

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

(b) to the extent that the pre-set performance targets have been satisfied over the three year performance period which will run from the start of the financial year within which the award is granted. Performance targets for the proposed grant during the financial year ending 30 June 2009 will be determined by:

(1) An 'underpin' condition based on the Company's adjusted diluted earnings per share performance — no awards will vest if the Company adjusted diluted earnings per share has not grown by at least RPI + 3% per annum over the performance period.

(2) The Company's TSR performance — assuming that the underpin is achieved, vesting of the awards will be determined by the Company's TSR performance compared to the other constituents of the FTSE Small Cap sector at the start of the performance period. The TSR will be calculated by comparing average performance over three months prior to the start and end of the performance period. Vesting will be on the following basis:

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

Further details of the 2008 LTIP are provided in the enclosed Circular to Shareholders for the 2008 Annual General Meeting and a resolution will be put to Shareholders at that meeting to approve the 2008 LTIP. Subject to Shareholder approval, the initial awards under this scheme will be made during 2008.

The Company also operates an Approved Share Option Scheme, an Unapproved Share Option Scheme together with a Savings Related Share Options Scheme (SAYE). Executive Directors are entitled to participate in the SAYE scheme but are not entitled to participate in the Approved Share Option Scheme or the Unapproved Share Option Scheme by reason of their participation in the 2008 LTIP.

Share Ownership Guideline

To be consistent with best practice, a formal share ownership guideline will be introduced for Executive Directors requiring them to retain at least half of any future share awards vesting as shares (after paying any tax due on the shares) until they have a holding of Dechra shares worth at least 100% of their base salary. Currently, all of the Executive Directors' shareholdings equate to over 100% of their base salary.

Contracts of Services

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 have a service contract for an initial 12 month period which is thereafter terminated by either party giving 12 months' notice.

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

		Notice Period	
Name	Commencement date	Director	Company
M Redmond	25 April 2001	12 months	12 months
ID Page	23 August 2000	6 months	12 months
SD Evans	23 August 2000	6 months	12 months
ETW Torr	23 August 2000	6 months	12 months
MM Diamond	23 August 2000	12 months	12 months
NW Warner	2 May 2003	12 months	12 months

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

The Company may, in its absolute discretion at any time after written notice has been given by either party, lawfully terminate the service contract by paying to the Director an amount equal to his 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 before the end of any financial year, the Director shall not be entitled to any bonus in respect of that financial year.

Non-Executive Directors' compensation is confined to 12 months' remuneration.

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

Name	Salary	Bonus	Benefits
M Redmond	12 months	n/a	n/a
ID Page	12 months	nil	12 months
SD Evans	12 months	nil	12 months
ETW Torr	12 months	nil	12 months
MM Diamond	12 months	n/a	n/a
NW Warner	12 months	n/a	n/a

Where applicable, payment of this compensation would be in full and final settlement of all claims other than in respect of share options or awards and pension arrangements. In an appropriate case the Directors would have regard to the departing Director's duty to mitigate loss, except in the event of dismissal following a change of control of the Company.

Other than as described above, there are no express provisions within the Directors' service contracts for the payment of compensation or liquidated damages on termination of employment.

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

Non-Executive Directors

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

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

Non-Executive Directors are paid a basic fee with additional fees paid for the chairing of Committees. Following a review by HNBS during the year, which benchmarked the current Non-Executive Director fee levels against the same companies used for benchmarking the Executive Directors' remuneration packages, it was agreed that fee levels should be increased from 1 July 2008. The annual fee level for 2008/09 is as follows:

Office	Fee £'000
Chairman	80
Non-Executive Director	31
Senior Non-Executive additional fee	3
Remuneration Committee Chairmanship additional fee	5
Audit Committee Chairmanship additional fee	8

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

Directors' Remuneration Report continued

Directors' Shareholdings

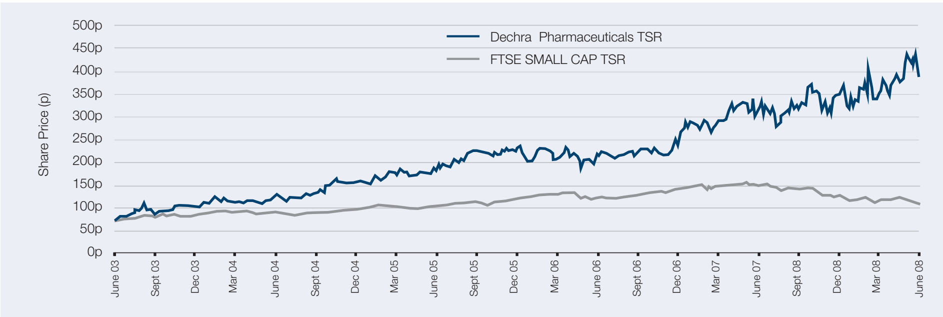
The beneficial interests of the Directors in office and their families in the share capital of Dechra Pharmaceuticals PLC as at 30 June 2008 were as follows:

Shareholdings	Ordinary Shares 2008	Ordinary Shares 2007
M Redmond	**41,475**	35,000
ID Page	**759,332**	662,819
SD Evans	**806,370**	749,131
ETW Torr	**426,796**	390,934
MM Diamond	**6,100**	5,000
NW Warner	**2,691**	2,206

There have been no changes in the holdings of the Directors between 30 June and 26 August 2008.

Total Shareholder Return

The graph below shows the Total Shareholder Return performance of the Company over the past five 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.



Effectiveness Review

During the year, the Committee reviewed its effectiveness through a process led by the Committee Chairman. The findings were reported to the Committee and the Board.

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 2008 £'000**	Total 2007 £'000
Executive Directors					
ID Page (Chief Executive)	300	180	69	**549**	389
SD Evans	175	105	47	**327**	256
ETW Torr	160	96	37	**293**	233
Non-Executive Directors					
M Redmond (Chairman)	60	—	—	**60**	52
MM Diamond	31	—	—	**31**	29
NW Warner	29	—	—	**29**	27
	755	381	153	**1,289**	986

Executive bonuses for the year ended 30 June 2008 (as reflected in the table above) were determined as follows:

- Profit performance — 10% of salary payable upon the achievement of 95% of Group profit target rising to 50% of salary payable upon the achievement of 105% of Group profit target. Actual performance reflected 115% of the profit target resulting in a payment worth 50% of salary.
- Personal objectives — up to an additional 10% of salary was payable to Executive Directors upon the achievement of personal objectives. Actual performance resulted in payments worth 10% of salary.

Executive Incentive Plan

Awards made under the Executive Incentive Plan are as follows:

	Award date	Number of shares at 30 June 2007	Granted during the year	Exercised during the year	**Number of shares at 30 June 2008**	Performance period	Share Price at date of award pence	Share Price at date of exercise pence
ID Page	2004	48,589	—	(48,589)	**—**	2004–2007	159.5	350
	2005	34,861	—	—	**34,861**	2005–2008	251	—
	2006	47,412	—	—	**47,412**	2006–2009	250.75	—
	2008	—	37,975	—	**37,975**	2007–2010	386	—
		130,862	37,975	(48,589)	**120,248**			
SD Evans	2004	33,096	—	(33,096)	**—**	2004–2007	159.5	350
	2005	23,904	—	—	**23,904**	2005–2008	251	—
	2006	30,263	—	—	**30,263**	2006–2009	250.75	—
	2008	—	22,152	—	**22,152**	2007–2010	386	—
		87,263	22,152	(33,096)	**76,319**			
ETW Torr	2004	31,348	—	(31,348)	**—**	2004–2007	159.5	350
	2005	22,908	—	—	**22,908**	2005–2008	251	—
	2006	28,245	—	—	**28,245**	2006–2009	250.75	—
	2008	—	20,253	—	**20,253**	2007–2010	386	—
		82,501	20,253	(31,348)	**71,406**			

Awards under the EIP vest based on Dechra's TSR performance over a three year performance period starting on 1 July prior to date of grant relative to the FTSE Small Cap Total Return Index with 30% of awards vesting for median performance rising to 100% for upper quartile performance. No awards vest unless the Committee is satisfied with the underlying financial performance of the Company over the performance period.

During the financial year awards granted in 2004 became exercisable. Independent verification by HNBS showed that the Company's TSR performance for the three year period to 30 June 2007 was in the top quartile of the FTSE Small Cap Total Return Index. The Committee also determined that the underlying financial performance of the Company over the performance period had been satisfactory. The full award was therefore exercisable.

Independent verification has also recently been sought from HNBS in respect of the satisfaction of the performance targets for awards which vested as at 30 June 2008. It has been confirmed to the Committee that the Company's TSR performance for the three year period to 30 June 2008 was again in the top quartile of the FTSE Small Cap Total Return Index. Subject to the Committee confirming that the underlying financial performance of the Company has been satisfactory throughout the performance period, the awards will be capable of exercise for a 90 day period commencing on 2 September 2008.

The aggregate gain made by the Executive Directors on share options exercised during 2008 was £589,000. The aggregate gain made by the Executive Directors on share options exercised during 2007 was £694,000.

Directors' Remuneration Report continued

SAYE Scheme

Directors' entitlements under the SAYE Scheme are as follows:

	Award date	Market price at date of grant pence	Exercise price pence	Exercise dates	At 30 June 2007 number	Exercised number	Granted number	Lapsed number	**At 30 June 2008 number**
ID Page	2 April 2003	48	39	June 2008	42,115	(42,115)	—	—	**—**
SD Evans	15 October 2004	198	158	Jan 2008	7,641	(7,641)	—	—	**—**
ETW Torr	15 October 2004	198	158	Jan 2008	3,056	(3,056)	—	—	**—**
	18 October 2005	255	204	Dec 2008	2,750	—	—	—	**2,750**
					55,562	(52,812)	—	—	**2,750**

Share Price

The middle market price for the Company's shares on 30 June 2008 was 420p and the range of prices during the year was 306p to 462.75p.

Pension Entitlement

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

	Age	**Contributions 2008 £000**	Contributions 2007 £000
ID Page	47	**42**	31
SD Evans	44	**25**	20
ETW Torr	48	**22**	18
		89	69

By order of the Board

Malcolm Diamond
Chairman — Remuneration Committee
2 September 2008

Social, Ethical and Environmental Responsibilities

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

The Board takes ultimate responsibility for Corporate Social Responsibility (CSR) and continues to be committed to developing and implementing appropriate policies to create and maintain long-term value for Shareholders. Sound business ethics help to minimise risk, ensure legal compliance and enhance Company efficiency. The need to review and manage risks to the short and long-term value of the Company arising from CSR is recognised by the Board and it considers that it has received adequate information to review these risks and has not identified any risks to the business that could affect its future value.

Environmental Policy

The Group recognises the importance of good environmental controls. It is the Group'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.

The Group is a registered member of a compliance scheme in respect of the Waste Packaging Obligations Regulations and, in addition, all of the National Veterinary Services depots recycle waste cardboard back to UK paper mills, and waste polythene is also recycled back to UK recycling agents. In particular, Dales Pharmaceuticals has achieved a 47% reduction in its landfill waste as a direct result of increased recycling activities.

A fleet of low CO_2 emission diesel vehicles is maintained; these vehicles are replaced every three years via leasing agreements. In addition, a number of LPG powered vehicles are being used in and around the London area.

Our manufacturing unit, Dales Pharmaceuticals, continues to comply with, and exceed, effluent discharge standards into local water supplies, this being monitored by Yorkshire Water Authority. Standard operating procedures are in place to ensure that contaminated waste is disposed of under strict controls. Exhaust air is fully filtered from the manufacturing unit before discharge.

Dales Pharmaceuticals is now actively working towards achieving its ISO 140001 status. A gap analysis has recently been carried out which has highlighted the procedures to be drafted. Funding has been obtained form the Manufacturing Advisory Service who are assisting Dales Pharmaceuticals in obtaining the standard and it is hoped that the status will be achieved within the next financial year.

Dales Pharmaceuticals has previously worked closely with the Carbon Trust in order to review its respective energy consumption and a number of areas identified where improvements can be made. As a result of the Carbon Trust audit of Dales Pharmaceuticals the manufacturing unit has (amongst other things):

- Installed low energy use (high frequency) lighting in all new or refurbished areas of the site;
- Replaced and tuned the main burner unit in the factory steam boiler to effect maximum efficiency of the gas burn; and
- Changed the grade of oil used in the oil fired heater unit contained in one of the buildings on site. This new grade of oil is significantly more energy efficient.

The Carbon Trust has recently visited the Distribution Unit, *NVS*, in order to carry out an energy consumption audit and the results are awaited in respect of this. It is envisaged that similar audits will be carried out at the remaining UK operating units within the next financial year.

Dechra Pharmaceuticals PLC has been involved in the Corporate Membership Scheme for the Staffordshire Wildlife Trust (the Trust) throughout the financial year. The money provided by the Company has assisted the Trust in funding its core operating costs and assisted in helping support community activities organised by the Trust, in particular, a guided walk at Parrotts Drumble (situated behind the Group's Distribution unit, *NVS*) that attracted over 100 participants.

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

ETW Torr is the nominated Director responsible for environmental policies.

Business Ethics

The Board expects all of the Group's business activities to be conducted in accordance with high standards of ethical conduct and full compliance with all applicable national and international legislation. This includes, in particular, the provision of a safe working environment including health and safety awareness, maintenance of fair and competitive employment practices, opposition to any bribery or corrupt business practices, treating suppliers on a fair basis to build long-term relationships to our mutual benefit, and being responsive to our customers' needs and providing a high standard of customer care.

A Whistle-Blowing Policy is in place whereby employees may report, in confidence, any suspected wrongdoings within the business where they feel unable to discuss any such issue directly with local management. The policy was reviewed and updated during the year by the Audit Committee. This policy is available to all employees via staff handbooks and the Company website at www.dechra.com.

Open and honest communication is positively encouraged between employees and management throughout the business.

Social, Ethical and Environmental Responsibilities continued

Health and Safety Policy

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

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

A full health and safety report is presented at Divisional Board Meetings on a regular basis in the presence of Executive Directors. These reports are summarised for subsequent review by the Board.

A transport risk review committee has been established to assess risks related to the vehicle fleet and establish control procedures. This includes a quarterly licence check of all individuals who are able to drive Company vehicles, an investigation into all accidents and a disciplinary procedure for speeding offences. This committee meets four times a year and issues raised by this committee are included at Health and Safety meetings.

SD Evans is the nominated Director responsible for Health and Safety policies.

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. The manufacturing site, Dales Pharmaceuticals, is registered with "Investors in People" and operates a Works Council.

Dales Pharmaceuticals also takes on a number of apprentices each year via the Modern Apprenticeship Scheme. Such employees are assisted in achieving National Vocational Qualifications as part of their apprenticeship, usually work-based but also involving literacy and numeracy modules. During the year, Claire Harrison, one of the apprentices employed at the unit, was put forward by her Training Officer from the North Lancs Training Group for the Learning and Skills Council National Apprenticeship Award 2008. Claire went on to win the award.

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

Where existing employees become disabled, it is the Group's policy whenever practicable to provide continuing employment under the Company's terms and conditions and to provide training and career development whenever appropriate.

The Group has encouraged employees to share in the growth of the Company through eligibility to participate in the SAYE Scheme.

National apprentice of the year award

Dales employee Claire Harrison receiving the national apprentice of the year award from Mike Annice

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

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Parent Company.

In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 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. Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report

We have audited the Group and Parent Company financial statements (the "financial statements") of Dechra Pharmaceuticals PLC for the year ended 30 June 2008 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. 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' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the Parent Company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 47.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Directors' Business Review that is cross-referenced from the Business Review and Future Developments section of the Directors' Report. In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 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. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and Company'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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 30 June 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the Parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 30 June 2008;
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
2 Cornwall Street
Birmingham
B3 2DL
2 September 2008

Consolidated
Financial Statements

Contents

Dechra
Pharmaceuticals PLC

Consolidated Income Statement

For the year ended 30 June 2008

		2008			2007		
	Note	Adjusted £'000	Amortisation of acquired intangibles and rationalisation costs (note 5) £'000	Total £'000	Adjusted £'000	Amortisation of acquired intangibles and rationalisation costs (note 5) £'000	Total £'000
Revenue	2	**304,371**	**—**	**304,371**	253,803	—	253,803
Cost of sales		**(250,771)**	**—**	**(250,771)**	(216,952)	—	(216,952)
Gross profit		**53,600**	**—**	**53,600**	36,851	—	36,851
Distribution costs		**(13,360)**	**—**	**(13,360)**	(10,850)	—	(10,850)
Administrative expenses		**(21,098)**	**(5,071)**	**(26,169)**	(12,125)	(27)	(12,152)
Operating profit	2	**19,142**	**(5,071)**	**14,071**	13,876	(27)	13,849
Finance income	3	**1,973**	**—**	**1,973**	1,044	—	1,044
Finance expense	4	**(4,262)**	**(77)**	**(4,339)**	(2,274)	—	(2,274)
Profit before taxation	6	**16,853**	**(5,148)**	**11,705**	12,646	(27)	12,619
Income tax expense	8	**(4,668)**	**1,281**	**(3,387)**	(3,780)	8	(3,772)
Profit for the year attributable to equity holders of the parent		**12,185**	**(3,867)**	**8,318**	8,866	(19)	8,847
Earnings per share							
Basic	10			**14.20p**			16.86p
Diluted	10			**14.09p**			16.62p
Dividend per share (interim paid and final proposed for the year)	9			**8.25p**			7.50p

Consolidated Balance Sheet

At 30 June 2008

	Note	2008 £'000	2007 £'000
ASSETS			
Non-current assets			
Intangible assets	11	**90,375**	13,089
Property, plant and equipment	12	**8,224**	5,739
Deferred tax assets	14	**1,053**	—
Total non-current assets		**99,652**	18,828
Current assets			
Inventories	15	**32,435**	25,732
Trade and other receivables	16	**47,445**	36,173
Cash and cash equivalents	17	**22,219**	17,222
Total current assets		**102,099**	79,127
Total assets		**201,751**	97,955
LIABILITIES			
Current liabilities			
Borrowings	20	**(21,218)**	(4,529)
Trade and other payables	18	**(62,596)**	(48,641)
Current tax liabilities	19	**(2,824)**	(2,464)
Total current liabilities		**(86,638)**	(55,634)
Non-current liabilities			
Borrowings	20	**(27,998)**	(11,666)
Deferred tax liabilities	14	**(15,316)**	(147)
Total non-current liabilities		**(43,314)**	(11,813)
Total liabilities		**(129,952)**	(67,447)
Net assets		**71,799**	30,508
EQUITY			
Issued share capital	22	**652**	528
Share premium account		**62,166**	28,041
Hedging reserve		**281**	(71)
Foreign currency translation reserve		**1,608**	—
Merger reserve		**1,770**	1,770
Retained earnings		**5,322**	240
Total equity attributable to equity holders of the parent		**71,799**	30,508

The financial statements were approved by the Board of Directors on 2 September 2008 and are signed on its behalf by:

Ian Page Director

Simon Evans Director

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 30 June 2008

Year ended 30 June 2007	Issued share capital £'000	Share premium account £'000	Hedging reserve £'000	Foreign currency translation reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
At 1 July 2006	519	27,693	(71)	—	1,720	(5,946)	23,915
Profit for the period being total recognised income and expense for the period	—	—	—	—	—	8,847	8,847
Dividends paid	—	—	—		—	(3,595)	(3,595)
Share-based payments including current and deferred tax	—	—	—	—	—	934	934
Shares issued	9	348	—	—	50	—	407
At 30 June 2007	528	28,041	(71)	—	1,770	240	30,508
Year ended 30 June 2008							
At 1 July 2007	528	28,041	(71)	—	1,770	240	30,508
Profit for the period	—	—	—	—	—	8,318	8,318
Fair value gains on derivative financial instruments	—	—	352	—	—	—	352
Exchange differences on translation of foreign operations	—	—	—	1,608	—	—	1,608
Total recognised income and expense for the period	—	—	352	1,608	—	8,318	10,278
Dividends paid	—	—	—	—	—	(4,420)	(4,420)
Share-based payments including current and deferred tax	—	—	—	—	—	1,184	1,184
Shares issued	124	35,636	—	—	—	—	35,760
Share issue expenses	—	(1,511)	—	—	—	—	(1,511)
At 30 June 2008	**652**	**62,166**	**281**	**1,608**	**1,770**	**5,322**	**71,799**

Hedging Reserve

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

Foreign Currency Translation Reserve

The foreign currency translation reserve contains exchange differences on the translation of subsidiaries with a functional currency other than sterling.

Merger Reserve

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2008

	Note	2008 £'000	2007 £'000
Cash flows from operating activities			
Profit for the period		**8,318**	8,847
Adjustments for:			
Depreciation		**1,291**	984
Amortisation		**3,230**	137
Loss/(gain) on sale of property, plant and equipment		**15**	(7)
Finance income		**(1,973)**	(1,044)
Finance expense		**4,339**	2,274
Equity-settled share-based payment expenses		**603**	479
Income tax expense		**3,387**	3,772
Operating cash flow before changes in working capital		**19,210**	15,442
Increase in inventories		**(3,912)**	(3,737)
Increase in trade and other receivables		**(3,070)**	(248)
Increase in trade and other payables		**3,825**	2,871
Cash generated from operations		**16,053**	14,328
Interest paid		**(4,450)**	(2,228)
Income taxes paid		**(3,041)**	(2,895)
Net cash from operating activities		**8,562**	9,205
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**5**	23
Interest received		**1,648**	1,059
Acquisition of subsidiaries	27	**(65,151)**	(717)
Purchase of property, plant and equipment		**(694)**	(823)
Capitalised development expenditure		**(1,331)**	(1,680)
Purchase of other intangible non-current assets		**(92)**	(2,845)
Net cash from investing activities		**(65,615)**	(4,983)
Cash flows from financing activities			
Proceeds from the issue of share capital		**35,747**	357
Share issue expenses		**(1,511)**	—
New borrowings		**50,200**	—
Expenses of raising new borrowings		**(751)**	—
Repayment of borrowings		**(17,185)**	(3,481)
Dividends paid		**(4,420)**	(3,595)
Net cash from financing activities		**62,080**	(6,719)
Net increase/(decrease) in cash and cash equivalents		**5,027**	(2,497)
Cash and cash equivalents at start of period		**17,222**	19,719
Exchange differences on cash and cash equivalents		**(30)**	—
Cash and cash equivalents at end of period		**22,219**	17,222

Consolidated Statement of Cash Flows continued

Reconciliation of net cash flow to movement in net borrowings

For the year ended 30 June 2008

	Note	2008 £'000	2007 £'000
Net increase/(decrease) in cash and cash equivalents		**5,027**	(2,497)
Repayment of borrowings		**17,185**	3,481
New borrowings		**(50,200)**	—
Borrowings assumed on acquisition of subsidiaries	27	**—**	(55)
New finance leases		**(319)**	(956)
Other non-cash changes		**283**	(25)
Movement in net cash/(borrowings) in the period		**(28,024)**	(52)
Net cash at start of period		**1,027**	1,079
Net (borrowings)/cash at end of period	24	**(26,997)**	1,027

Notes to the Consolidated Financial Statements

1. Accounting Policies

Dechra Pharmaceuticals PLC is a Company domiciled in the United Kingdom. The consolidated financial statements of the Group for the year ended 30 June 2008 comprise the Company and its subsidiaries.

(a) Statement of Compliance

The Consolidated Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union. The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP and they are separately presented on pages 91 to 99.

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

The Group's significant accounting policies are listed below:

(b) Basis of Preparation

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

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

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

During the period, the Company adopted the following accounting statements:

— IFRS 7 Financial Instruments: Disclosures and the related amendment to IAS 1 Presentation of Financial Statements — Capital Disclosures
— IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
— IFRIC 8 Scope of IFRS 2
— IFRIC 9 Reassessment of Embedded Derivatives
— IFRIC 10 Interim Financial Reporting and Impairment
— IFRIC 11 Group and Treasury Share Transactions

These have resulted in additional disclosures, but have had no impact on reported profit or net assets.

At the date of authorisation of these financial statements, the following Standards/revisions to Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

— IFRS 2 Share-based Payments (revised 2008)
— IFRS 3 Business Combinations (revised 2008)
— IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (revised 2008)
— IFRS 8 Operating Segments
— IAS 1 Presentation of Financial Statements (revised 2007/2008)
— IAS 16 Property, Plant and Equipment (revised 2008)
— IAS 19 Employee Benefits (revised 2008)
— IAS 23 Borrowing Costs (revised 2008)
— IAS 27 Consolidated and Separate Financial Statements (revised 2008)
— IAS 28 Investments in Associates (revised 2008)
— IAS 31 Interests in Joint Ventures (revised 2008)
— IAS 32 Financial Instruments: Presentation (revised 2008)
— IAS 36 Impairment of Assets (revised 2008)
— IAS 38 Intangible Assets (revised 2008)
— IAS 39 Financial Instruments: Recognition and Measurement (revised 2008)
— IFRIC 12 Service Concession Arrangements
— IFRIC 13 Customer Loyalty Programmes
— IFRIC 14 The Limit on a Defined Benefit Asset. Minimum Funding Requirements and their Interaction

The Directors anticipate that the adoption of these Standards/revisions to Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional segment disclosure when IFRS 8 comes into effect for periods commencing on or after 1 January 2009 and the financial statement presentation changes under IAS 1 (revised 2007/2008) which also comes into effect for periods beginning on or after 1 January 2009.

Notes to the Consolidated Financial Statements continued

1. Accounting Policies continued

(c) Basis of Consolidation

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

(ii) Transactions Eliminated on Consolidation
Intra-Group balances and any unrealised gains and losses or income and expenses arising from intra-Group transactions are eliminated in preparing the Consolidated Financial Statements.

(d) Business Combinations
The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of completion, of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's indentifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS3 are recognised at their fair value at the acquisition date.

(e) Foreign Currency Translation

(i) Functional Currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

(ii) Foreign Currency Translation
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Foreign Operations
The results and financial position of all the Group entities that have a functional currency different from the functional currency of the Parent Company are translated into sterling as follows:

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

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

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

There are no Group entities operating in a hyperinflationary economy.

(f) Financial Assets and Liabilities

Financial assets
The Group classifies its financial assets into the following categories: held for trading financial assets, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the assets are held.

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

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

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Held for trading financial assets are recognised and subsequently carried at fair value. Available-for-sale financial assets are recognised and subsequently carried at fair value plus any directly attributable transaction costs. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Financial assets not carried at fair value through the income statement are initially recognised at fair value plus transaction costs.

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

1. Accounting Policies continued

Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from equity and recognised in the income statement. Impairment losses recognised on these instruments are not reversed through the income statement if the fair value of the instrument increases in a later period.

Derivative financial instruments

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

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

Hedging

Cash flow hedges

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

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

Hedges of net investment in foreign operations

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised in the Foreign Currency Translation Reserve within equity, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged part of a net investment is disposed of, the associated cumulative amount in equity is transferred to profit or loss as an adjustment to the profit or loss on disposal.

Receivables

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

Receivables are recognised initially at fair value and subsequently measured at amortised cost. Amortised cost is determined using the effective interest method less an allowance for impairment. An allowance for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows (discounted at the effective interest rate). The allowance is initially recognised in the income statement.

Trade and Other Payables

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

Borrowings

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

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

(g) Property, Plant and Equipment

(i) Owned Assets

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

(ii) Leased Assets

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

Notes to the Consolidated Financial Statements continued

1. Accounting Policies continued

(iii) Subsequent Costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iv) Depreciation

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

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

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

(h) Intangible Assets

(i) Goodwill

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

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

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

(ii) Research and Development Costs

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

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

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

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

(iii) Acquired Intangible Assets

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

(iv) Other Intangible Assets

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

(v) Subsequent Expenditure

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

(vi) Amortisation

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

software	5 years
capitalised development costs	5–10 years
acquired intangibles	10–15 years
patent rights	Period of patent
marketing authorisations	Indefinite life
product rights	Period of product rights

1. Accounting Policies continued

(i) Inventories

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

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

(j) Cash and Cash Equivalents

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

(k) Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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

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

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

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

An impairment loss in respect of goodwill is not reversed.

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

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

(l) Dividends

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

(m) Employee Benefits

(i) Pensions

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

(ii) Share-Based Payment Transactions

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

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

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

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

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

Notes to the Consolidated Financial Statements continued

1. Accounting Policies continued

(n) Revenue

(i) Goods Sold
For both Pharmaceuticals and Services, revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. This is normally when the buyer takes delivery of the goods. Appropriate provision is made, based on past experience, for the possible return of goods and discounts given to customers.

(ii) Services Provided
Revenue is recognised when the contractual service has been provided to the customer.

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

(o) Expenses

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

(ii) Finance Lease Payments
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

(iii) Net Financing Costs
Net financing costs comprise interest payable on borrowings, interest receivable on funds invested and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy f).

Interest income is recognised in the income statement as it accrues. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

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

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

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

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

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

(q) Segment Reporting
A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(r) Operating Profit and Operating Cash Flow
Operating profit and operating cash flow is stated before investment income and finance costs.

2. Segmental Analysis

The Group's primary reporting segment is business divisions which correspond with the way the operating businesses are organised and managed within the Group and its secondary segment is geographical origin.

Segment results, assets and liabilities comprise those items directly attributable to particular segments as well as items which can reasonably be allocated to those segments. Inter-segment transactions are entered into applying normal commercial terms that would be available to third parties.

Unallocated items comprise mainly corporate assets, expenses, loans and borrowings together with the elimination of inter-segment transactions.

The composition of the segments is detailed in the Directors' Business Review section of this Annual Report.

The following table analyses revenue and operating profit accordingly:

Business Segment

	Pharmaceuticals		Services		Unallocated		Total	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000	**2008 £'000**	2007 £'000	**2008 £'000**	2007 £'000
Revenue								
External customers	**45,187**	19,736	**259,184**	234,067	**—**	—	**304,371**	253,803
Inter-segment	**9,115**	6,912	**179**	140	**(9,294)**	(7,052)	**—**	—
Total revenue	**54,302**	26,648	**259,363**	234,207	**(9,294)**	(7,052)	**304,371**	253,803
Adjusted operating profit	**10,765**	6,102	**10,693**	9,525	**(2,316)**	(1,751)	**19,142**	13,876
Amortisation of acquired intangibles and rationalisation costs	**(5,035)**	(21)	**(36)**	(6)	**—**	—	**(5,071)**	(27)
Operating profit	**5,730**	6,081	**10,657**	9,519	**(2,316)**	(1,751)	**14,071**	13,849
Finance income							**1,973**	1,044
Finance expense							**(4,339)**	(2,274)
Profit before taxation							**11,705**	12,619
Income tax expense							**(3,387)**	(3,772)
Profit for the year							**8,318**	8,847
Assets								
Intangible assets	**86,468**	9,382	**3,907**	3,707	**—**	—	**90,375**	13,089
Property, plant and equipment	**6,401**	3,624	**1,823**	2,115	**—**	—	**8,224**	5,739
Other assets	**35,140**	15,071	**80,706**	70,090	**650**	156	**116,496**	85,317
Cash offset	**—**	—	**—**	—	**(13,344)**	(6,190)	**(13,344)**	(6,190}
Total assets	**128,009**	28,077	**86,436**	75,912	**(12,694)**	(6,034)	**201,751**	97,955
Liabilities								
Borrowings	**(506)**	(586)	**(1,418)**	(1,489)	**(60,636)**	(20,310)	**(62,560)**	(22,385)
Other liabilities	**(14,123)**	(5,452)	**(47,343)**	(42,571)	**(19,270)**	(3,229)	**(80,736)**	(51,252)
Cash offset	**—**	—	**—**	—	**13,344**	6,190	**13,344**	6,190
Total liabilities	**(14,629)**	(6,038)	**(48,761)**	(44,060)	**(66,562)**	(17,349)	**(129,952)**	(67,447)
Net assets/(liabilities)	**113,380**	22,039	**37,675**	31,852	**(79,256)**	(23,383)	**71,799**	30,508

Notes to the Consolidated Financial Statements continued

2. Segmental Analysis continued

Other Segment Items

Capital expenditure								
— intangible assets	**77,238**	4,611	**295**	1,348	**—**	—	**77,533**	5,959
— property, plant and equipment	**3,448**	549	**232**	595	**—**	—	**3,680**	1,144
Total capital expenditure	**80,686**	5,160	**527**	1,943	**—**	—	**81,213**	7,103
Share-based payments charge	**—**	—	**—**	—	**759**	596	**759**	596
Depreciation and amortisation	**3,922**	569	**599**	552	**—**	—	**4,521**	1,121

Geographical Segment

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

	2008 £'000	2007 £'000
UK	**277,463**	247,920
Rest of Europe	**20,460**	4,246
USA	**5,266**	1,121
Rest of world	**1,182**	516
	304,371	253,803

The table below gives additional information in respect of segment revenue and segment operating profit, based on the geographical location of the business unit supplying the goods or services. Segment assets and capital expenditure are based on the geographical location of the assets and expenditure. Activities in the UK comprise all operating segments. Overseas operations comprise pharmaceuticals only.

	UK		USA		Denmark		Unallocated		Total	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000	**2008 £'000**	2007 £'000	**2008 £'000**	2007 £'000	**2008 £'000**	2007 £'000
Revenue by geographical origin	**280,847**	253,429	**4,566**	374	**18,958**	—	**—**	—	**304,371**	253,803
Adjusted operating profit by geographical origin	**18,357**	15,825	**450**	(198)	**2,651**	—	**(2,316)**	(1,751)	**19,142**	13,876
Total assets	**118,401**	102,533	**2,275**	1,456	**93,769**	—	**(12,694)**	(6,034)	**201,751**	97,955
Capital expenditure										
— intangible assets	**3,584**	5,959	**—**	—	**73,949**	—	**—**	—	**77,533**	5,959
— property, plant and equipment	**787**	1,141	**17**	3	**2,876**	—	**—**	—	**3,680**	1,144
Total capital expenditure	**4,371**	7,100	**17**	3	**76,825**	—	**—**	—	**81,213**	7,103

3. Finance Income

Recognised in profit or loss	**2008 £'000**	2007 £'000
Finance income arising from:		
— Cash and cash equivalents	**1,631**	1,018
— Derivatives at fair value through profit or loss	**325**	—
— Loans and receivables	**17**	26
	1,973	1,044

3. Finance Income continued

Finance income arising from derivatives at fair value through profit or loss relates to fair value gains on forward foreign currency contracts.

Recognised directly in equity	2008 £'000	2007 £'000
Foreign currency translation differences for foreign operations	2,415	—
Net loss on hedge of net investment in foreign operations	(807)	—
Recognised in foreign currency translation reserve	1,608	—

	2008 £'000	2007 £'000
Fair value gains on interest rate floor and ceiling	446	—
Income tax expense on above	(125)	—
Amount recycled to income statement	31	—
Recognised in hedging reserve	352	—
Total recognised in equity	1,960	—

4. Finance Expense

	2008 £'000	2007 £'000
Finance expense arising from:		
— Financial liabilities at amortised cost	4,281	2,228
— Derivatives at fair value through profit or loss	58	46
	4,339	2,274

Finance expense arising from derivatives at fair value through profit or loss relates to fair value losses on foreign currency options and interest rate floor and ceilings.

5. Adjusted Operating Profit and Profit before Taxation

Adjusted operating profit is calculated as follows:

Operating profit	2008 £'000	2007 £'000
Operating profit	14,071	13,849
Amortisation of intangible assets acquired as a result of business combinations	2,975	27
Rationalisation costs arising following the acquisition of *VetXX* Holdings A/S	2,096	—
Adjusted operating profit	19,142	13,876

Adjusted profit before taxation is calculated as follows:

Profit before taxation	2008 £'000	2007 £'000
Profit before taxation	11,705	12,619
Amortisation of intangible assets acquired as a result of business combinations	2,975	27
Rationalisation costs arising following the acquisition of *VetXX* Holdings A/S	2,096	—
Write-off of unamortised arrangement fees on borrowings refinanced as a result of the acquisition of *VetXX* Holdings A/S	77	—
Adjusted profit before taxation	16,853	12,646

Notes to the Consolidated Financial Statements continued

6. Profit before Taxation

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

	2008 £'000	2007 £'000
Cost of inventories recognised as an expense	**247,801**	214,602
Impairment of inventories included in above figure	**548**	446
Depreciation of property, plant and equipment		
— owned assets	**1,065**	806
— under finance leases	**226**	178
Amortisation of intangible assets	**3,230**	137
Loss/(profit) on disposal of property, plant and equipment	**15**	(7)
Impairment of receivables	**788**	1,183
Operating lease rentals payable	**2,719**	2,124
Research and development expenditure as incurred	**2,408**	1,645
Auditors' remuneration	**278**	260
Analysis of total fees paid to the auditors:		
Audit of these financial statements	**30**	25
Audit of financial statements of subsidiaries pursuant to legislation	**139**	78
Other services pursuant to legislation	**17**	8
Other services relating to taxation	**92**	149
	278	260

In addition, payments made to the auditors of £964,000 (2007: £15,000) relating to corporate finance transactions have been capitalised as part of the acquisition cost of *VetXX* Holdings A/S.

7. Employees

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

	2008 Number	2007 Number
Manufacturing	**203**	147
Distribution	**411**	390
Administration	**275**	210
	889	747

The costs incurred in respect of these employees were:

	2008 £'000	2007 £'000
Wages and salaries	**19,766**	13,992
Social security costs	**1,849**	1,359
Other pension costs	**813**	403
Share-based payments charge (see note 23)	**759**	596
	23,187	16,350

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

	2008 £'000	2007 £'000
Wages and salaries (including benefits in kind)	**1,750**	1,499
Social security costs	**224**	192
Other pension costs	**138**	111
Share-based payments charge	**510**	439
	2,622	2,241

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

Details of the remuneration, shareholdings, share options and pension contributions of the Executive Directors are included in the Directors' Remuneration Report on pages 38 to 44.

The Group operates a stakeholder personal pension scheme for certain employees. The Group contributed between 4% and 14% of pensionable salaries which amounted to £813,000 (2007: £403,000).

Notes to the Consolidated Financial Statements continued

8. Income Tax Expense

	2008 £'000	2007 £'000
Current tax — charge for current year	3,687	3,361
— adjustment in respect of prior years	(29)	(69)
Total current tax expense	3,658	3,292
Deferred tax — origination and reversal of temporary differences	(300)	409
— adjustment in respect of prior years	29	71
Total deferred tax expense	(271)	480
Total income tax expense in the income statement	3,387	3,772

Of the current tax expense of £3,658,000, an amount of £14,000 (2007: £nil) was in respect of foreign territories.

The tax on the Group's profit before tax differs from the standard rate of UK corporation tax of 28% (2007: 30%). The differences are explained below:

	2008 £'000	2007 £'000
Profit before taxation	11,705	12,619
Tax at 28% (2007: 30%)	3,277	3,786
Effect of:		
— depreciation on assets not eligible for tax allowances	15	47
— disallowable expenses	45	41
— utilisation of overseas losses	(137)	58
— over-recovery of deferred tax on share-based payments	—	(46)
— research and development tax credits	—	(60)
— differences on overseas tax rates	(5)	—
— reduction in tax rate used to calculate deferred tax liability	16	(56)
— adjustments in respect of prior years	—	2
— adjustments due to changes in tax rate	176	—
Total income tax expense	3,387	3,772

Additional current tax credits of £266,000 (2007: £454,000) and a deferred tax charge of £265,000 (2007: credit of £1,000) have been recognised directly in equity.

The corporation tax rate applicable to the Company changed from 30% to 28% with effect from 1 April 2008.

9. Dividends

	2008 £'000	2007 £'000
Final dividend paid in respect of prior year but not recognised as a liability in that year 5.00p per share (2007: 4.33p)	**2,640**	2,278
Interim dividend paid 2.75p per share (2007: 2.50p)	**1,780**	1,317
Total dividend 7.75p per share (2007: 6.83p) recognised as distributions to equity holders in the period	**4,420**	3,595
Proposed final dividend for the year ended 30 June 2008 5.50p per share (2007: 5.00p)	**3,588**	2,640
Total dividend paid and proposed for the year ended 30 June 2008 8.25p per share (2007: 7.50p)	**5,368**	3,957

In accordance with IAS 10 'Events After the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2008 has not been accrued for in these financial statements. It will be shown as a deduction from equity in the financial statements for the year ending 30 June 2009.

The proposed final dividend for the year ended 30 June 2007 is shown as a deduction from equity in the year ended 30 June 2008.

10. Earnings per Share

Earnings per ordinary share have been calculated by dividing the profit attributable to equity holders of the parent after taxation for each financial period by the weighted average number of ordinary shares in issue during the period.

	2008 Pence	2007 Pence
Basic earnings per share		
— Adjusted basic	**20.81**	16.89
— Basic	**14.20**	16.86
Diluted earnings per share		
— Adjusted diluted	**20.64**	16.66
— Diluted	**14.09**	16.62

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

	£'000	£'000
Earnings for adjusted basic and adjusted diluted earnings per share calculations	**12,185**	8,866
Earnings for basic and diluted earnings per share figures	**8,318**	8,847

	No.	No.
Weighted average number of ordinary shares for basic earnings per share	**58,560,097**	52,482,659
Impact of share options	**464,486**	737,011
Weighted average number of ordinary shares for diluted earnings per share	**59,024,583**	53,219,670

Notes to the Consolidated Financial Statements continued

11. Intangible Assets

Cost	Goodwill £'000	Software £'000	Develop-ment costs £'000	Patent rights £'000	Product rights £'000	Marketing authori-sations £'000	Acquired intangibles £'000	Total £'000
At 1 July 2006	4,385	717	826	789	278	822	—	7,817
Additions	467	591	1,680	257	—	31	2,933	5,959
Disposals	—	—	—	—	(278)	—	—	(278)
At 30 June 2007 and 1 July 2007	4,852	1,308	2,506	1,046	—	853	2,933	13,498
Additions	—	411	1,331	1,879	—	—	—	3,621
Acquisition through business combinations	14,397	94	261	—	—	—	59,160	73,912
Disposals	—	—	—	—	—	—	—	—
Foreign exchange adjustments	595	3	10	—	—	—	2,375	2,983
At 30 June 2008	**19,844**	**1,816**	**4,108**	**2,925**	**—**	**853**	**64,468**	**94,014**
Amortisation								
At 1 July 2006	—	91	181	—	18	—	—	290
Charge for the year	—	58	52	—	—	—	27	137
Disposals	—	—	—	—	(18)	—	—	(18)
At 30 June 2007 and 1 July 2007	—	149	233	—	—	—	27	409
Charge for the year	—	132	123	—	—	—	2,975	3,230
Disposals	—	—	—	—	—	—	—	—
At 30 June 2008	**—**	**281**	**356**	**—**	**—**	**—**	**3,002**	**3,639**
Net book value								
At 30 June 2008	**19,844**	**1,535**	**3,752**	**2,925**	**—**	**853**	**61,466**	**90,375**
At 30 June 2007 and 1 July 2007	4,852	1,159	2,273	1,046	—	853	2,906	13,089
At 1 July 2006	4,385	626	645	789	260	822	—	7,527

	2008 £'000	2007 £'000
Contracted capital commitments	**—**	200
Software assets in the course of construction included above	**935**	1,158

Goodwill is allocated across cash-generating units and consequently a consistent approach in assessing the carrying value of this amount is taken. Key assumptions made in this respect are given in note 13. The addition in the year arose from the acquisition of *VetXX* Holdings A/S (see note 27).

11. Intangible Assets continued

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

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

During the 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* Capsules. The first stage payment of £789,000 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* Capsules. These amounts are accrued for in these financial statements. Once a marketing authorisation has been granted and the patent right can be applied commercially, the patent rights will begin to be amortised.

£822,000 of the marketing authorisations relate to the *Vetivex* range of products. The *Vetivex* marketing authorisations are regarded as having indefinite useful economic lives and have not been amortised. Ownership of the marketing authorisations rests with the Group in perpetuity. There are not believed to be any legal, regulatory or contractual provisions that limit their useful lives. *Vetivex* is an established range of products which are relatively simple in nature and there are a limited number of players in the market. Accordingly, the Directors believe that it is appropriate that the marketing authorisations are treated as having indefinite lives for accounting purposes.

Acquired intangibles comprise:

— Marketing authorisations, brands and trademarks of products recognised on the acquisition of *VetXX* Holdings A/S
— Customer relationships recognised on the acquisition of Leeds Veterinary Laboratories Limited
— Trademarks and brands recognised on the acquisition of Pharmaderm Animal Health

Notes to the Consolidated Financial Statements continued

12. Property, Plant and Equipment

	Freehold land and buildings £'000	Short leasehold buildings £'000	Motor vehicles £'000	Plant and fixtures £'000	Total £'000
Cost					
At 1 July 2006	13	2,601	433	7,500	10,547
Additions	—	27	—	1,079	1,106
Acquisitions through business combinations	—	—	—	38	38
Disposals	—	—	—	(33)	(33)
At 30 June 2007 and 1 July 2007	13	2,628	433	8,584	11,658
Additions	—	144	—	678	822
Acquisition through business combinations	2,072	—	—	786	2,858
Disposals	—	—	(2)	(1,524)	(1,526)
Foreign exchange adjustments	84	—	—	32	116
At 30 June 2008	**2,169**	**2,772**	**431**	**8,556**	**13,928**
Depreciation					
At 1 July 2006	—	550	433	3,969	4,952
Charge for the year	—	147	—	837	984
Disposals	—	—	—	(17)	(17)
At 30 June 2007 and 1 July 2007	—	697	433	4,789	5,919
Charge for the year	61	154	—	1,076	1,291
Disposals	—	—	(2)	(1,504)	(1,506)
At 30 June 2008	**61**	**851**	**431**	**4,361**	**5,704**
Net book value					
At 30 June 2008	**2,108**	**1,921**	**—**	**4,195**	**8,224**
At 30 June 2007 and 1 July 2007	13	1,931	—	3,795	5,739
At 1 July 2006	13	2,051	—	3,531	5,595
Net book value of assets held under finance leases					
At 30 June 2008	**—**	**84**	**—**	**938**	**1,022**
At 30 June 2007 and 1 July 2007	—	70	—	1,172	1,242
At 1 July 2006	—	77	—	1,028	1,105

	2008 £'000	2007 £'000
Assets in the course of construction included above	**290**	370
Contracted capital commitments	**327**	61

13. Impairment Reviews

Goodwill, indefinite life assets and intangible assets not yet available for use are tested for impairment annually, or more frequently if there are indications that amounts might be impaired. The impairment test involves determining the recoverable amounts of the relevant cash-generating unit, which corresponds to the higher of the fair value less costs to sell or its value in use. Value in use calculations have been performed using the methods and assumptions detailed below:

(a) Goodwill

The carrying amount of goodwill shown in note 11 comprises £2,621,000 (2007: £2,621,000) relating to the acquisition of North Western Laboratories Limited and Leeds Veterinary Laboratories Limited, £2,231,000 (2007: £2,231,000) relating to the acquisition of Anglian Pharma plc and £14,397,000 (2007: £nil) in respect of the acquisition of *VetXX* Holdings A/S. For the purpose of annual impairment reviews the goodwill relating to North Western Laboratories and Leeds Veterinary Laboratories Limited has been allocated to the Laboratories cash-generating unit, the goodwill relating to Anglian Pharma plc has been allocated to the Dales Pharmaceuticals cash-generating unit and the goodwill relating to *VetXX* Holdings A/S has been allocated to the *VetXX* cash-generating unit. The recoverable amount of all units is based on value in use calculations. The value in use of each of these cash-generating units has been determined by discounting projected future cash flows by a pre-tax discount rate of 9.93%, being the Directors' estimate of the weighted average cost of capital of the Company.

Projected future cash flows have been derived from the annual budget for the year ending 30 June 2009 extrapolated applying a growth rate of 5% per annum up to year five and no growth in revenues beyond year five. The strong market position of each business justifies considering a period in excess of five years.

In all cases, the value in use is significantly higher than the carrying amount and no impairment provision is therefore required.

(b) Indefinite Life Assets

The Directors consider that the *Vetivex* marketing authorisations with a carrying amount of £822,000 have an indefinite life. Their value in use has been determined by discounting projected future cash flows by a pre-tax discount rate of 9.93%, being the Directors' estimate of the weighted average cost of capital of the Company. Projected future cash flows have been derived from the annual budget for the year ending 30 June 2009 applying a growth rate of 5% per annum up to year five and no growth in revenues beyond year five.

The value in use is significantly higher than the carrying amount and no impairment provision is therefore required.

(c) Intangible Assets not yet available for use

(i) *Vetoryl*

The Group is developing an intangible asset in respect of authorisation to market our product *Vetoryl* Capsules in the USA. This intangible asset will only be available for use once marketing authorisation is received from the FDA.

The carrying amount in respect of this intangible asset is as follows:

	2008 £'000	2007 £'000
Payment to acquire patent rights to Trilostane (the active ingredient of *Vetoryl* Capsules)	**789**	789
Subsequent development costs	**1,869**	1,263
Further Bioenvision milestone payments	**1,879**	—
	4,537	2,052

Value in use has been determined by discounting the projected cash flows by a pre-tax discount rate of 14.93%. The higher discount rate reflects the uncertainty of the timing of future cash flows. Projected cash flows have been determined from a detailed marketing plan covering a five year period from product launch extrapolated forward. No growth in revenues is assumed after the fifth year following launch. The marketing plan uses data on the market size and market penetration taking into account our experience in launching *Vetoryl* Capsules in other territories.

Based upon the above calculation, the value in use is significantly higher than the carrying amount and no impairment provision is required.

(ii) *Felimazole*

The Group is developing an intangible asset in respect of authorisation to market our product *Felimazole* Tablets in the USA. This intangible asset will only be available for use once market authorisation is received from the FDA. At 30 June 2008, the carrying value of this intangible asset (included within development costs) was £697,000 (2007: £344,000).

Value in use has been determined by discounting the projected cash flows by a pre-tax discount rate of 14.93%. The higher discount rate reflects the uncertainty of the timing of future cash flows. Projected cash flows have been determined from a detailed marketing plan covering a five year period from product launch extrapolated forward. No growth in revenues is assumed after the fifth year following launch. The marketing plan uses data on the market size and market penetration taking into account our experience in launching *Felimazole* Tablets in other territories.

Based upon the above calculation, the value in use is significantly higher than the carrying amount and no impairment provision is required.

Notes to the Consolidated Financial Statements continued

14. Deferred Taxes

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000	**2008 £'000**	2007 £'000
Intangible assets	**—**	—	**(15,872)**	(740)	**(15,872)**	(740)
Property, plant and equipment	**—**	—	**(423)**	(325)	**(423)**	(325)
Inventories	**53**	—	**(72)**	—	**(19)**	—
Receivables	**—**	30	**(294)**	—	**(294)**	30
Cash and cash equivalents	**—**	—	**—**	—	**—**	—
Borrowings	**—**	—	**—**	—	**—**	—
Payables	**248**	32	**—**	—	**248**	32
Current tax liabilities	**—**	—	**—**	—	**—**	—
Trading losses	**1,309**	—	**—**	—	**1,309**	—
Share-based payments	**788**	856	**—**	—	**788**	856
	2,398	918	**(16,661)**	(1,065)	**(14,263)**	(147)

Shown as:

	2008 £'000	2007 £'000
Deferred tax assets	**1,053**	—
Deferred tax liabilities	**(15,316)**	(147)
	(14,263)	(147)

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

(b) Unrecognised deferred tax assets

	2008 £'000	2007 £'000
Tax losses	**—**	166

Overseas tax losses brought forward at 1 July 2007 have been utilised during the current financial year.

(c) Movement in temporary differences during the year

	Balance at 1 July 2006 £'000	Acquisitions £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 30 June 2007 £'000
Intangible assets	(193)	(113)	(434)	—	(740)
Property, plant and equipment	(311)	—	(14)	—	(325)
Inventories	—	—	—	—	—
Receivables	98	—	(68)	—	30
Cash and cash equivalents	—	—	—	—	—
Borrowings	—	—	—	—	—
Payables	38	—	(6)	—	32
Current tax liabilities	—	—	—	—	—
Share-based payments	813	—	42	1	856
	445	(113)	(480)	1	(147)

14. Deferred Taxes continued

	Balance at 1 July 2007 £'000	Acquisitions £'000	Recognised in income £'000	Recognised in equity £'000	Foreign exchange adjustments £'000	**Balance at 30 June 2008 £'000**
Intangible assets	(740)	(14,863)	331	—	(600)	**(15,872)**
Property, plant and equipment	(325)	(136)	44	—	(6)	**(423)**
Inventories	—	56	(71)	—	(4)	**(19)**
Receivables	30	(84)	(112)	(125)	(3)	**(294)**
Cash and cash equivalents	—	—	—	—	—	**—**
Borrowings	—	—	—	—	—	**—**
Payables	32	201	7	—	8	**248**
Current tax liabilities	—	—	—	—	—	**—**
Trading losses	—	1,257	—	—	52	**1,309**
Share-based payments	856	—	72	(140)	—	**788**
	(147)	(13,569)	271	(265)	(553)	**(14,263)**

15. Inventories

	2008 £'000	2007 £'000
Raw materials and consumables	**3,860**	2,250
Work in progress	**316**	208
Finished goods and goods for resale	**28,259**	23,274
	32,435	25,732

16. Trade and Other Receivables

	2008 £'000	2007 £'000
Trade receivables	**43,741**	34,029
Other receivables	**1,896**	1,368
Prepayments and accrued income	**1,808**	776
	47,445	36,173

17. Cash and Cash Equivalents

	2008 £'000	2007 £'000
Cash at bank and in hand	**4,657**	1,468
Short-term deposits	**17,562**	15,754
	22,219	17,222

The short-term deposits are repayable on demand.

18. Trade and Other Payables

	2008 £'000	2007 £'000
Trade payables	**50,177**	44,019
Other payables	**5,412**	605
Other taxation and social security	**3,894**	1,978
Accruals and deferred income	**3,113**	2,039
	62,596	48,641

Notes to the Consolidated Financial Statements continued

19. Current Tax Liabilities

	2008 £'000	2007 £'000
Corporation tax payable	**2,824**	2,464

20. Borrowings

	2008 £'000	2007 £'000
Current liabilities		
Bank loans and overdrafts	**20,616**	4,000
Finance lease obligations	**602**	529
	21,218	4,529
Non-current liabilities		
Bank loans	**27,500**	10,200
Finance lease obligations	**1,507**	1,546
Arrangement fees netted off	**(1,009)**	(80)
	27,998	11,666
Total borrowings	**49,216**	16,195

The Group's borrowing facilities comprise a term loan of £32.5 million repayable in equal instalments of £2.5 million each 30 June and 31 December, a £15 million revolving credit facility committed until 31 December 2012, an overdraft facility of £10 million renewable on 1 July 2009 and various finance lease obligations.

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

	2008 £'000	2007 £'000
Revolving credit facility	**—**	5,000
Bank overdraft facility	**10,000**	4,000
	10,000	9,000

The term loan, revolving credit and overdraft facilities are secured by a fixed and floating charge on the assets of the Group. Interest is charged at 1.25% over LIBOR for the term loan, 1% over LIBOR for the revolving credit facility and 1% above base rate for the overdraft facility.

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

	2008 £'000	2007 £'000
Payable:		
Within one year	**20,616**	4,000
Between one and two years	**5,000**	5,000
Between two and five years	**15,000**	5,200
Due after five years	**7,500**	—
	48,116	14,200

The minimum lease payments and the present value of minimum lease payments payable under finance lease obligations are:

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000
Within one year	**786**	704	**602**	529
Between one and two years	**631**	623	**517**	511
Between two and five years	**1,116**	1,153	**990**	1,035
Total minimum lease payments	**2,533**	2,480	**2,109**	2,075
Future finance charges	**(424)**	(405)	**—**	—
Present value of lease obligations	**2,109**	2,075	**2,109**	2,075

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

21. Financial Instruments and Related Disclosures

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

Treasury Policy

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

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

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

The Group does not hold or issue derivative financial instruments for speculative purposes and the Group's treasury policies specifically prohibit such activity. All transactions in financial instruments are undertaken to manage the risks arising from underlying business activities, not for speculation.

Capital Management

The capital structure of the Group consists of net borrowings and Shareholders' equity. At 30 June 2008, net borrowings were £27.0 million, whilst shareholders' equity was £71.8 million. Net borrowings have increased compared to the equivalent point last year as new borrowings were taken on to partially finance the acquisition of *VetXX* Holdings A/S.

The Group manages its capital structure to maintain a prudent balance between debt and equity that allows sufficient headroom to finance the Group's product development programme and appropriate acquisitions.

The Group operates globally, primarily through subsidiary companies established in the markets in which the Group trades. The Group's operating subsidiaries are generally cash generative and none are subject to externally imposed capital requirements.

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

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

Financial Risk Management

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

— liquidity risk
— market risk
— credit risk

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

Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet liabilities as they fall due. Cash forecasts identifying the liquidity requirements of the Group are produced quarterly. These are reviewed to ensure sufficient financial headroom exists for at least a 12 month period.

The Group manages its funding requirements through the following lines of credit:

— £32.5 million term loan
— £15 million revolving credit facility
— £10 million working capital facility
— various finance leases

The Group's undrawn borrowing facilities at 30 June 2008 are detailed in note 20.

Notes to the Consolidated Financial Statements continued

21. Financial Instruments and Related Disclosures continued

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates or interest rates, will affect the Group's income or the value of its holding of financial instruments.

Interest rate risk management

The majority of the Group's borrowings bear interest at floating rates linked to base rate or LIBOR and are consequently exposed to cash flow interest rate risk.

The Group had hedged interest rate risk on its term loan by means of an interest rate floor and ceiling arrangement whereby the Group's exposure to fluctuations in LIBOR is limited to a minimum rate of 4.40% and a maximum rate of 5.70%. The amount of the term loan outstanding at 30 June 2008 was £32.5 million. The hedge is in place until 31 December 2010 and the amount hedged matches the repayment profile of the loan.

Foreign exchange risk management

Foreign currency transaction exposure arising on normal trade flows is not hedged. The Group matches receipts and payments in the relevant foreign currencies as far as possible. To this end, bank accounts are maintained for all the major currencies in which the Group trades.

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

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

The Group hedges its net investment in major overseas subsidiaries by denominating an appropriate amount of borrowings in the local currency to match the net assets of the subsidiary. However, translational exposure in converting the income statements of foreign subsidiaries into the Group's presentational currency of sterling is not hedged. Borrowings that are denominated in foreign currencies that match investments in overseas Group assets are treated as hedges against the relevant assets.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Group considers its maximum credit risk to be £67,380,000 which is the total carrying value of the Group's financial assets.

Cash is only deposited with highly rated banks.

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

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

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

The largest customer of the Group accounted for approximately 7.5% of gross trade receivables at 30 June 2008.

Receivables are written off against the impairment provision when management considers the debt to be no longer recoverable.

21. Financial Instruments and Related Disclosures continued

Fair value of financial assets and liabilities

The following table presents the carrying amounts and the fair values of the Group's financial assets and liabilities at 30 June 2008 and 30 June 2007.

The following assumptions were used to estimate the fair values:

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

Analysis of Financial Instruments

The financial instruments of the Group are analysed as follows:

	2008 Carrying value	2008 Fair value	2007 Carrying value	2007 Fair value
Financial assets				
Cash and cash equivalents	22,219	22,219	17,222	17,222
Held for trading financial assets:				
— derivatives designated as hedges	446	446	—	—
— other derivatives	689	689	25	25
	1,135	1,135	25	25
Loans and receivables				
— trade receivables	43,741	43,741	34,029	34,029
— other receivables within the scope of IAS 39	285	285	—	—
	44,026	44,026	34,029	34,029
Other financial assets	—	—	—	—
Total financial assets	67,380	67,380	51,276	51,276
Financial liabilities				
Bank loans and overdrafts	(47,107)	(47,107)	(14,120)	(14,120)
Finance lease liabilities	(2,109)	(2,177)	(2,075)	(2,168)
Trade payables	(50,177)	(50,177)	(44,019)	(44,019)
Total financial liabilities	(99,393)	(99,461)	(60,214)	(60,307)
Net financial assets and liabilities	(32,013)	(32,081)	(8,938)	(9,031)

Notes to the Consolidated Financial Statements continued

21. Financial Instruments and Related Disclosures continued

Credit risk — Overdue financial assets

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

	2008 £'000	2007 £'000
Overdue by:		
Up to one month	2,590	1,541
Between one and two months	930	535
Between two and three months	431	319
Over three months	1,452	2,676
	5,403	5,071

The movement in the impairment provision was as follows:

	2008 £'000	2007 £'000
At 1 July 2007	3,177	2,033
Impairment provision recognised	846	1,183
Impairment provision utilised	(2,440)	(39)
At 30 June 2008	1,583	3,177

Liquidity risk — Contracted cash flows of financial liabilities

The following table shows the cash flow commitments of the Group in respect of financial liabilities excluding derivatives at 30 June 2008 and 30 June 2007. Where interest is at floating rates, the future interest payments have been estimated using current interest rates:

At 30 June 2008	Bank Loans and overdrafts £'000	Finance Leases £'000	Trade Payables £'000	Total £'000
Carrying value	(47,107)	(2,109)	(50,177)	(99,393)
Arrangement fees netted off	(1,009)	—	—	(1,009)
Future interest	(8,283)	(424)	—	(8,707)
Total committed cash flow	**(56,399)**	**(2,533)**	**(50,177)**	**(109,109)**
Payable:				
Within 6 months	(19,369)	(432)	(50,168)	(69,969)
Between 6 months and 1 year	(3,582)	(354)	(9)	(3,945)
Between 1 and 2 years	(6,892)	(633)	—	(7,525)
Between 2 and 3 years	(6,532)	(442)	—	(6,974)
Between 3 and 4 years	(6,172)	(413)	—	(6,585)
Between 4 and 5 years	(5,812)	(259)	—	(6,071)
Over 5 years	(8,040)	—	—	(8,040)
	(56,399)	**(2,533)**	**(50,177)**	**(109,109)**

Of the bank loans and overdrafts of £19,369,000 payable within six months, £15,000,000 is available to be drawn down again.

21. Financial Instruments and Related Disclosures continued

At 30 June 2007	Bank Loans and overdrafts £'000	Finance Leases £'000	Trade Payables £'000	Total £'000
Carrying value	(14,120)	(2,075)	(44,019)	(60,214)
Arrangement fees netted off	(80)	—	—	(80)
Future interest	(1,901)	(405)	—	(2,306)
Total committed cash flow	(16,101)	(2,480)	(44,019)	(62,600)
Payable:				
Within 6 months	(2,518)	(400)	(44,010)	(46,928)
Between 6 months and 1 year	(2,445)	(303)	(9)	(2,757)
Between 1 and 2 years	(5,653)	(623)	—	(6,276)
Between 2 and 3 years	(5,485)	(544)	—	(6,029)
Between 3 and 4 years	—	(357)	—	(357)
Between 4 and 5 years	—	(253)	—	(253)
Over 5 years	—	—	—	—
	(16,101)	(2,480)	(44,019)	(62,600)

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

	2008		2007	
	Receivables £'000	**Payables £'000**	Receivables £'000	Payables £'000
Due:				
Within 6 months	**2,306**	**1,978**	—	—
Between 6 months and 1 year	**2,231**	**1,955**	—	—
Between 1 and 2 years	**2,231**	**2,072**	—	—
	6,768	**6,005**	—	—

At 30 June 2008, the Group had entered into forward exchange contracts to buy DKK63 million (£6,693 million translated at the closing exchange rate) and sell £6,005 million. The fair value gain arising during the year of £325,000 is recognised within finance income (see note 3).

The Group has a contractual right to receive £75,000 under its interest rate floor and ceiling arrangement covering the period from 1 July to 31 December 2008.

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

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

Notes to the Consolidated Financial Statements continued

21. Financial Instruments and Related Disclosures continued

Foreign currency exposure

The sterling equivalents of financial assets and liabilities denominated in foreign currencies at 30 June 2008 and 30 June 2007 were:

At 30 June 2008	Danish kroner £'000	Euros £'000	US dollars £'000	Other £'000
Financial assets				
Trade receivables	1,490	2,789	709	761
Other receivables	—	84	—	—
Cash balances	3,182	3,328	596	388
Derivatives	—	—	—	—
Other financial assets	—	—	—	—
	4,672	6,201	1,305	1,149
Financial liabilities				
Bank loans and overdrafts	(20,791)	—	—	—
Finance leases	—	(1,286)	—	—
Trade payables	(2,430)	(581)	(141)	(73)
Derivatives	—	—	—	—
	(23,221)	(1,867)	(141)	(73)
Net balance sheet exposure	**(18,549)**	**4,334**	**1,164**	**1,076**

At 30 June 2007	Danish kroner £'000	Euros £'000	US dollars £'000	Other £'000
Financial assets				
Trade receivables	—	827	257	—
Other receivables	—	42	—	—
Cash balances	—	292	27	—
Derivatives	—	—	—	—
Other financial assets	—	—	—	—
	—	1,161	284	—
Financial liabilities				
Bank loans and overdrafts	—	—	—	—
Finance leases	—	—	—	—
Trade payables	—	(91)	(1,251)	—
Derivatives	—	—	—	—
Other financial liabilities	—	(91)	(1,251)	—
Net balance sheet exposure	**—**	**1,070**	**(967)**	**—**

21. Financial Instruments and Related Disclosures continued

Sensitivity Analysis

Interest rate risk

A 1% increase in interest rates compared to those ruling at 30 June 2008 would reduce Group profit before taxation by £156,000.

Foreign currency risk

The Group has significant cash flows and net financial assets and liabilities in Danish kroner, US dollars and euros.

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

	Profit before taxation £'000	Net assets £'000
Danish kroner	(529)	(3,031)
US dollars	(23)	(193)
Euros	(1,231)	(1,231)

Hedges

Cash flow hedges

The Group has entered into an interest rate floor and ceiling on the term loan of £32.5 million and designated it a cash flow hedge. The risk being hedged in the variability of cash flows arising from movements in interest rates. No ineffectiveness is assumed on the hedge.

The hedge is in place until 31 December 2010. The amounts recognised in equity are recycled to the income statement to offset gains and losses in the period in which the cash flow occurs.

The amount recognised in equity in the year ended 30 June 2008 was £446,000 less related income tax of £125,000 (2007: £nil). £44,000 less income tax of £13,000 was recycled to the income statement (2007: £nil).

Net investment hedges

Borrowings in Danish kroner taken out at the time of the acquisition of *VetXX* Holdings A/S have been designated as a net investment hedge in respect of the foreign currency translation risk arising on the Group's net investment in *VetXX* Holdings A/S. No ineffectiveness is assumed on the hedge.

Notes to the Consolidated Financial Statements continued

22. Share Capital

	Ordinary shares of 1p each			
	2008		2007	
	£'000	**No.**	£'000	No.
Authorised	**1,000**	**100,000,000**	750	75,000,000
Allotted, called up and fully paid at start of year	**528**	**52,803,699**	519	51,915,002
New shares issued	**124**	**12,438,210**	9	888,697
Allotted, called up and fully paid at end of year	**652**	**65,241,909**	528	52,803,699

On 8 January 2008, 11,624,544 new ordinary shares were issued by way of a Placing and Open Offer at a price of 303p per share to partially finance the acquisition of *VetXX* Holdings A/S. The gross proceeds raised were £35.2 million.

During the year, 813,666 new ordinary shares of 1p (2007: 873,889 new ordinary shares of 1p) were issued following the exercise of options under the Executive Incentive Plan and the Approved, Unapproved and SAYE Share Options Schemes. The consideration received was £537,000 (2007: £357,000). In the year ended 30 June 2007, 14,808 new ordinary shares of 1p were issued in part consideration for the acquisition of Leeds Veterinary Laboratories Limited (see note 27). The market value of these new ordinary shares of 1p at the date of issue was £50,000 and this amount was credited to merger reserve. The holders of ordinary shares are entitled to receive dividends as declared or approved at General Meetings from time to time and are entitled to one vote per share at such meetings of the Company.

23. Share-based Payments

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

Unapproved and Approved Share Option Schemes

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

Executive Incentive Plan

Under this plan Executive Directors and selected senior Executives are awarded shares in the Company subject to a Total Shareholder Return ("TSR") target.

The TSR target measures the Company's TSR performance against the FTSE Small Cap Index over a three year measurement period (commencing at the beginning of the financial year in which the awards are made). 100% of the shares vest if the Company achieves an upper quartile performance, 30% of the shares vest at median performance and awards vest on a straight-line basis for performance in between. No shares vest if performance is below median.

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

SAYE Option Scheme

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

23. Share-based Payments continued

Outstanding awards and the movement during the year are shown below:

Year ended 30 June 2008

	Exercise period	Exercise price per share Pence	At 1 July 2007 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2008 Number
Unapproved Share Option Scheme							
14 September 2000	2003–2010	120	51,500	(42,500)	—	(2,000)	**7,000**
22 April 2002	2005–2012	153.5	38,500	(22,000)	—	—	**16,500**
11 April 2003	2006–2013	58.5	35,500	(27,000)	—	—	**8,500**
19 March 2007	2010–2017	289	26,139	—	—	—	**26,139**
2 April 2008	2011–2018	366	—	—	45,842	(10,000)	**35,842**
			151,639	(91,500)	45,842	(12,000)	**93,981**
Approved Share Option Scheme							
2 April 2004	2007–2014	134.5	67,000	(32,000)	—	—	**35,000**
3 December 2004	2007–2014	180	30,000	(3,333)	—	—	**26,667**
5 April 2005	2008–2015	202.5	162,000	(88,500)	—	(8,000)	**65,500**
15 March 2006	2009–2016	252	162,000	—	—	(11,000)	**151,000**
19 March 2007	2010–2017	289	161,861	—	—	(11,000)	**150,861**
2 April 2008	2011–2018	366	—	—	83,158	—	**83,158**
			582,861	(123,833)	83,158	(30,000)	**512,186**
Executive Incentive Plan							
9 October 2004	2007–2008	—	182,525	(182,525)	—	—	**—**
3 October 2005	2008–2009	—	205,141	—	—	—	**205,141**
14 September 2006	2009–2010	—	216,128	—	—	—	**216,128**
29 February 2008	2011–2012	—	—	—	152,472	—	**152,472**
			603,794	(182,525)	152,472	—	**573,741**
SAYE Option Scheme							
9 April 2002	2005–2007	129	470	(470)	—	—	**—**
3 April 2003	2006–2008	39	367,237	(362,184)	—	(5,053)	**—**
15 October 2004	2007–2009	124	127,447	(51,493)	—	—	**75,954**
18 October 2005	2008–2010	204	79,136	(1,350)	—	(1,806)	**75,980**
12 October 2006	2009–2013	195.74	137,133	(311)	—	(6,349)	**130,473**
17 October 2007	2010–2014	280	—	—	164,959	(7,099)	**157,860**
			711,423	(415,808)	164,959	(20,307)	**440,267**
Total			**2,049,717**	**(813,666)**	**446,431**	**(62,307)**	**1,620,175**
Weighted average exercise price			115.0p	65.4p	209.2p	245.0p	**156.8p**

Notes to the Consolidated Financial Statements continued

23. Share-based Payments continued

Year ended 30 June 2007

	Exercise period	Exercise price per share Pence	At 1 July 2006 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2007 Number
Unapproved Share Option Scheme							
14 September 2000	2003–2010	120	131,000	(79,500)	—	—	51,500
22 April 2002	2005–2012	153.5	87,500	(49,000)	—	—	38,500
11 April 2003	2006–2013	58.5	82,500	(41,000)	—	(6,000)	35,500
19 March 2007	2010–2017	289	—	—	26,139	—	26,139
			301,000	(169,500)	26,139	(6,000)	151,639
Approved Share Option Scheme							
2 April 2004	2007–2014	134.5	123,000	(54,000)	—	(2,000)	67,000
3 December 2004	2007–2014	180	30,000	—	—	—	30,000
5 April 2005	2008–2015	202.5	171,000	—	—	(9,000)	162,000
15 March 2006	2009–2016	252	175,000	—	—	(13,000)	162,000
19 March 2007	2010–2017	289	—	—	161,861	—	161,861
			499,000	(54,000)	161,861	(24,000)	582,861
Executive Incentive Plan							
5 December 2003	2006–2007	—	505,000	(505,000)	—	—	—
9 October 2004	2007–2008	—	182,525	—	—	—	182,525
3 October 2005	2008–2009	—	205,141	—	—	—	205,141
14 September 2006	2009–2010	—	—	—	216,128	—	216,128
			892,666	(505,000)	216,128	—	603,794
SAYE Option Scheme							
26 April 2001	2004–2006	158	28,188	(18,578)	—	(9,610)	—
9 April 2002	2005–2007	129	12,570	(11,544)	—	(556)	470
3 April 2003	2006–2008	39	496,393	(115,267)	—	(13,889)	367,237
15 October 2004	2007–2009	124	129,127	—	—	(1,680)	127,447
18 October 2005	2008–2010	204	98,330	—	—	(19,194)	79,136
12 October 2006	2009–2013	195.74	—	—	153,545	(16,412)	137,133
			764,608	(145,389)	153,545	(61,341)	711,423
Total			**2,457,274**	**(873,889)**	**557,673**	**(91,341)**	**2,049,717**
Weighted average exercise price			79.9p	40.8p	151.3p	166.3p	115.0p

For options exercised during the year, the weighted average market price at the date of exercise was 409p (2007: 264p). The weighted average remaining contractual lives of options outstanding at the balance sheet date was four years (2007: four years).

23. Share-based Payments continued

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

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

The assumptions used in calculating fair value are as follows:

Executive Incentive Plan

Date of grant	29/2/08	14/9/06	3/10/05	9/10/04
Number of shares awarded	152,472	216,128	205,141	210,739
Share price at date of grant	386p	250.75p	251p	164p
Exercise price	Nil	Nil	Nil	Nil
Expected life	3 years	3 years	3 years	3 years
Risk-free rate	4.20%	4.70%	4.21%	4.69%
Volatility	36%	36%	36%	36%
Dividend yield	1.94%	2.49%	2.07%	2.95%
Fair value per share	259p	162p	169p	105p

Unapproved and Approved Share Option Schemes

Date of grant	2/4/08	19/3/07	15/3/06	5/4/05	3/12/04	2/4/04
Number of shares awarded	129,000	188,000	177,000	181,000	30,000	147,000
Share price at date of grant	367p	289p	252p	212p	179.32p	136p
Exercise price	366p	289p	252p	202.5p	180p	134.5p
Expected life	5 years	5 years	5 years	5 years	5 years	5 years
Risk-free rate	4.08%	4.98%	4.32%	4.61%	4.53%	4.76%
Volatility	36%	36%	36%	36%	36%	36%
Dividend yield	2.04%	2.36%	2.15%	2.40%	2.61%	3.19%
Fair value per share	116p	92p	79p	69p	54p	40p

Save as You Earn Option Scheme

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

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

National Insurance contributions are payable by the Company in respect of some of the share-based payments. These contributions are payable on the date of exercise based on the intrinsic value of the share-based payments and are therefore treated as cash-settled awards. The Group had an accrual at 30 June 2008 of £229,000 (2007: £181,000), of which £123,000 (2007: £38,000) related to vested options. The total charge to the Income Statement in respect of share-based payments was:

	2008 £'000	2007 £'000
Equity-settled share-based transactions	603	479
Cash-settled share-based transactions	156	117
	759	596

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

Notes to the Consolidated Financial Statements continued

24. Analysis of Net (Borrowings)/Cash

	2008 £'000	2007 £'000
Bank loans and overdraft	**(47,107)**	(14,120)
Finance leases and hire purchase contracts	**(2,109)**	(2,075)
Cash and cash equivalents	**22,219**	17,222
Net (borrowings)/cash	**(26,997)**	1,027

25. Operating Leases

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

	Land and buildings		Other assets		Total	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000	**2008 £'000**	2007 £'000
Within one year	**1,081**	1,008	**1,670**	826	**2,751**	1,834
Between one and five years	**3,943**	3,975	**1,708**	697	**5,651**	4,672
In five years or more	**3,343**	4,284	**—**	11	**3,343**	4,295
	8,367	9,267	**3,378**	1,534	**11,745**	10,801

26. Foreign Exchange Rates

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

	At acquisition	Average rate	Closing rate at 30 June 2008
Danish krone	9.80	9.5957	9.4136
US dollar	n/a	2.0044	1.9954

27. Acquisition of Subsidiary

On 15 January 2008 the Company acquired the entire share capital of *VetXX* Holdings A/S, a Danish company. The assets and liabilities acquired are allocated as follows:

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Intangible assets (see note 11)	261	59,254	59,515
Property, plant and equipment (see note 12)	2,946	(88)	2,858
Deferred tax assets	1,094	—	1,094
Inventories	2,699	—	2,699
Trade and other receivables	7,268	—	7,268
Trade and other payables	(7,295)	(711)	(8,006)
Current tax	(11)	—	(11)
Deferred tax liabilities	—	(14,663)	(14,663)
Net assets	6,962	43,792	50,754
Goodwill (see note 11)			14,397
Consideration (including costs)			65,151
Satisfied by:			
Cash			63,658
Expenses of acquisition			1,493
Cash flow on acquisition			65,151

The fair value adjustments may be amended in the year ending 30 June 2009 if information not currently available comes to light.

Goodwill represents the present value of synergies expected to arise following the acquisition.

The fair value adjustment in relation to intangible assets recognises marketing authorisations, brands and trademarks in accordance with IFRS 3. The deferred tax adjustment reflects the tax effect of the fair value adjustments. Other adjustments reflect the estimated realisable value of the assets and liabilities.

For the 12 month period ended 30 June 2008, *VetXX* Holdings A/S made a consolidated adjusted operating profit of £5,818,000, of which £2,651,000 was recognised in the period following acquisition.

If the acquisition had occurred on 1 July 2007, management estimates that consolidated revenue would have been £323.2 million and adjusted operating profit for the period would have been £22.31 million.

Notes to the Consolidated Financial Statements continued

27. Acquisition of Subsidiary continued

On 26 April 2007 the Company acquired the entire share capital of Leeds Veterinary Laboratories Limited. The assets and liabilities acquired are allocated as follows:

		Book value £'000	Fair value adjustments £'000	Fair value £'000
Intangible assets		—	377	377
Property, plant and equipment (see note 12)		67	(29)	38
Inventories		38	—	38
Trade and other receivables		691	—	691
Cash and cash equivalents		13	—	13
Borrowings		(55)	—	(55)
Trade and other payables		(140)	—	(140)
Current tax		(16)	—	(16)
Deferred tax		—	(113)	(113)
		598	235	833
Goodwill (see note 11)				467
Total consideration				1,300
Satisfied by:				
Cash				673
Issue of ordinary shares				50
Transfer of freehold property				520
Expenses of acquisition				57
Total consideration				1,300
Less:	issue of ordinary shares (see note 22)			(50)
	transfer of freehold property			(520)
	cash acquired			(13)
Cash flow on acquisition				717

Intangible assets recognised on acquisition represent customer relationships.

Goodwill represents the expertise and technical knowledge of the Company's staff and the long-term strategic benefit of expanding the geographic coverage of the Group's Laboratories business.

For the 12 month period ended 30 June 2007, Leeds Veterinary Laboratories Limited made a profit of £44,000 (before exceptional income of £237,000), of which £28,000 was recognised in the period following acquisition.

If the acquisition had occurred on 1 July 2006, management estimates that consolidated revenue would have been £254,617,000 and consolidated profit for the period would have been £8,863,000 (before exceptional income of £237,000).

28. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Critical Judgements in applying the Group's Accounting Policies

In the process of applying the Group's accounting policies as described in note 1, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the Financial Statements.

Intangible Asset — *Vetoryl* Capsules USA

As described in note 13, the Group is carrying a total amount of £4,537,000 in respect of *Vetoryl* Capsules USA. Recoverability of this amount is dependent upon obtaining FDA approval to market *Vetoryl* Capsules in the USA. Based upon positive discussions with the FDA (evidenced by the product being granted expedited review status) and the obtaining of marketing approval in the European Union, the Directors concluded that the obtaining of marketing authorisation in the USA is highly likely and that the criteria for recognising an intangible asset have been met.

Intangible Asset — *Felimazole* Tablets USA

As described in note 13, the Group is carrying a total amount of £697,000. Recoverability of this amount is dependent upon obtaining FDA approval to market *Felimazole* Tablets in the USA. Based on positive discussions with the FDA and the obtaining of marketing approval in the European Union, the Directors concluded that the obtaining of marketing authorisation in the USA is highly likely and that the criteria for recognising an intangible asset have been met.

Key Sources of Estimation Uncertainty

The key sources of estimation uncertainty which may cause a material adjustment to the carrying amount of assets and liabilities are discussed below:

Impairment of Goodwill and Indefinite Life Intangible Assets

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

Impairment of Receivables

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

29. Related Party Transactions

Subsidiaries

The Group's ultimate Parent Company is Dechra Pharmaceuticals PLC. A listing of all principal subsidiaries is shown within the financial statements of the Company on page 99.

Transactions with Key Management Personnel

The details of the remuneration, long-term incentive plans, shareholdings, share options and pension entitlements of individual Directors are included in the Directors' Remuneration Report on pages 38 to 44. The remuneration of key management is disclosed in note 7.

Financial History

	2008* £'000	2007* £'000	2006* £'000	2005* £'000	2004† £'000
Income statement					
Revenue	**304,371**	253,803	232,471	210,267	186,843
Adjusted operating profit	**19,142**	13,876	12,312	11,255	9,184
Adjusted profit before taxation	**16,853**	12,646	11,044	9,701	8,060
Adjusted profit after taxation	**12,185**	8,866	7,557	7,027	5,751
Adjusted earnings per share — basic (pence)	**20.81**	16.89	14.71	13.77	11.28
— diluted (pence)	**20.64**	16.66	14.36	13.54	11.12
Dividend per share (pence)	**8.25**	7.50	6.24	5.20	4.70
Average number of employees	**889**	747	691	679	643
Balance sheet					
Non-current assets	**99,652**	18,828	13,567	12,391	10,398
Working capital	**17,284**	13,264	11,774	12,127	11,318
Current tax liabilities	**(2,824)**	(2,464)	(2,505)	(2,057)	(1,275)
Deferred tax liabilities	**(15,316)**	(147)	—	—	(174)
Net (borrowings)/cash	**(26,997)**	1,027	1,079	(4,859)	(10,110)
Shareholders' funds	**71,799**	30,508	23,915	17,602	10,157
Cash flow					
Cash flow from operating activities	**16,053**	14,328	13,997	13,549	10,576
Net interest paid	**(2,802)**	(1,169)	(1,218)	(1,667)	(1,012)
Tax paid	**(3,041)**	(2,895)	(2,618)	(1,996)	(1,864)
Capital expenditure	**(2,112)**	(5,325)	(1,492)	(1,925)	(546)
Acquisitions	**(65,151)**	(717)	—	—	—
Equity dividends paid	**(4,420)**	(3,595)	(2,777)	(2,473)	(2,192)
Financing	**66,500**	(3,124)	(97)	11,760	(2,588)
Changes in cash in period	**5,027**	(2,497)	5,795	17,248	2,374

* Reported under IFRS
† Reported under UK GAAP

The main differences between the information under UK GAAP and IFRS relate to classification of sale of trading data to suppliers, goodwill amortisation, capitalisation of development expenditure, share-based payments charges, treatment of lease incentives, income tax, deferred tax and dividends. These are fully explained in the Annual Report and Financial Statements for the year ended 30 June 2006.

Company
Financial Statements

Contents

Dechra
Pharmaceuticals PLC

Company Balance Sheet

At 30 June 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Investments	iv	**94,366**	54,658
		94,366	54,658
Current assets			
Debtors	v	**47,574**	12,366
Cash at bank and in hand		**7**	7
		47,581	12,373
Creditors: (amounts falling due within one year)	vi	**(37,087)**	(23,348)
Net current assets/(liabilities)		**10,494**	(10,975)
Total assets less current liabilities		**104,860**	43,683
Creditors: amounts falling due after more than one year	vi	**(26,641)**	(10,120)
Net assets		**78,219**	33,563
Capital and reserves			
Called up share capital	x	**652**	528
Share premium account	xi	**62,166**	28,041
Hedging reserve	xi	**281**	(71)
Profit and loss account	xi	**15,120**	5,065
Total equity Shareholders' funds		**78,219**	33,563

The financial statements were approved by the Board of Directors on 2 September 2008 and are signed on its behalf by:

Ian Page Director

Simon Evans Director

Reconciliation of Movements in Shareholders' Funds

For the year ended 30 June 2008

	2008 £'000	2007 £'000
At start of period	**33,563**	32,397
Profit for the financial year	**13,872**	3,925
Movement in hedging reserve	**352**	—
Share-based payments charge	**603**	479
Dividends paid	**(4,420)**	(3,595)
New shares issued	**34,249**	357
At end of period	**78,219**	33,563

Notes to the Financial Statements

(i) Principal Accounting Policies of the Company

Accounting Principles

The Company Balance Sheet has been prepared under the historical cost convention except for derivatives which are stated at fair value in accordance with applicable UK accounting standards and the Companies Act 1985.

Basis of Preparation

No Profit and Loss Account is presented for the Company as permitted by Section 230(4) of the Companies Act 1985. The profit dealt with in the accounts of the Company was £13,872,000 (2007: £3,925,000).

Investments

Investments held as fixed assets are stated at cost less any impairment losses. Where the consideration for the acquisition of a subsidiary undertaking includes shares in the Company to which the provisions of section 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.

Derivative Financial Instruments

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

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

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

Hedging

Cash flow hedges

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

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

Cash Flow Statement

As the ultimate holding company of the Dechra Pharmaceuticals PLC Group, the Company has relied upon the exemption in FRS 1 (Revised) not to present a cash flow statement as part of its financial statements.

Dividends

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

Dividends receivable from subsidiaries are recognised when either received in cash or applied to reduce a creditor balance with the subsidiary.

Interest-Bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Related Parties

Under FRS 8 the Company has relied upon the exemption not to disclose related party transactions with other Group undertakings as they are all included in the Dechra Pharmaceuticals PLC Consolidated Financial Statements.

Employee Benefits

(i) Pensions

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

(i) Principal Accounting Policies of the Company continued

(ii) Share-Based Payment Transactions

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

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

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

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

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

Foreign currency

Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities are translated at the closing rate at the reporting date. Foreign exchange gains and losses are recognised in the profit and loss account.

Taxation

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

Financial Guarantee Contracts

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

(ii) Directors and Employees

Total emoluments of Directors (including pension contributions) amounted to £1,378,000 (2007: £1,055,000). Information relating to Directors’ emoluments, share options and pension entitlements is set out in the Directors’ Remuneration Report on pages 38 to 44.

Including Directors, the average number of staff employed during the year solely in an administrative function was 8 (2007: 8). The costs incurred in respect of these employees were:

	2008 £’000	2007 £’000
Wages and salaries	1,251	1,042
Social security costs	151	125
Other pension costs	94	80
Share-based payments charge	269	195
	1,765	1,442

At 30 June 2008, outstanding pension contributions of £11,000 (2007: £7,000) were included in creditors.

(iii) Auditors’ Remuneration

	2008 £’000	2007 £’000
Audit of the Parent Company financial statements	20	15

Amounts paid to the Company’s auditors in respect of services to the Company, other than the audit of the Company’s financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

Notes to the Financial Statements continued

(iv) Fixed Asset Investments

	Shares in Subsidiary Undertakings £'000
Cost and net book value	
At 1 July 2007	54,658
Additions	39,708
At 30 June 2008	**94,366**

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

During the year, the Company acquired *VetXX* Holdings A/S.

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.

(v) Debtors

	2008 £'000	2007 £'000
Amounts owed by subsidiary undertakings	**45,048**	10,724
Group relief receivable	**1,655**	1,218
Deferred taxation (see note ix)	**228**	275
Other debtors	**508**	61
Prepayments and accrued income	**135**	88
	47,574	12,366

Included in debtors are amounts of £228,000 (2007: £275,000) due after more than one year.

(vi) Creditors

	Falling due within one year	
	2008 £'000	2007 £'000
Bank loans and overdrafts (see note vii)	**33,960**	10,190
Finance lease obligations	**35**	—
Amounts due to subsidiary undertakings	**1,962**	12,540
Other creditors	**11**	9
Other taxation and social security	**40**	54
Accruals and deferred income	**1,079**	555
	37,087	23,348

In accordance with FRS 21, Events after the Balance Sheet Date, the proposed final dividend for the year ended 30 June 2008 of 5.50p per share has not been accrued for in these financial statements. It will be shown in the financial statements for the year ending 30 June 2009. The total cost of the proposed final dividend is £3,588,000.

	Falling due after more than one year	
	2008 £'000	2007 £'000
Bank loans (see note vii)	**26,491**	10,120
Finance lease obligations	**150**	—
	26,641	10,120

(vii) Borrowings

	2008 £'000	2007 £'000
Borrowings due within one year		
Bank overdraft	**13,344**	6,190
Bank loan	**20,616**	4,000
Finance lease obligations	**35**	—
	33,995	10,190
Borrowings due after more than one year		
Aggregate bank loan instalments repayable:		
between one and two years	**5,000**	5,000
between two and five years	**15,000**	5,200
after five years	**7,500**	—
	27,500	10,200
Arrangement fees netted off	**(1,009)**	(80)
	26,491	10,120
Finance lease obligations repayable:		
between one and two years	**39**	—
between two and five years	**111**	—
	150	—
Total borrowings	**60,636**	20,310

The bank loans and overdrafts are secured by a fixed and floating charge on the assets of the Group. Interest is charged at between 1% and 1.25% over LIBOR.

The Company guarantees certain borrowings of other Group companies, which at 30 June 2008 amounted to £1,924,000 (2007: £2,075,000).

(viii) Financial Instruments

	2008 £'000	2007 £'000
Changes in fair value (charged)/credited to profit and loss	**(58)**	(46)

Details of valuation techniques and fair values of each category of financial instruments are given in note 21 to the Consolidated Financial Statements in the section headed 'Financial Instruments and Related Disclosures'.

Notes to the Financial Statements continued

(ix) Deferred Tax

	£'000
At 1 July 2007	275
Transfer to profit and loss account	78
Transfer from equity	(125)
At 30 June 2008 (included in debtors)	**228**

The amounts provided for deferred taxation at 28% (2007: 28%) are as follows:

	2008 £'000	2007 £'000
Short term timing differences	**(228)**	(275)
Total	**(228)**	(275)

(x) Called up Share Capital

		Ordinary Shares of 1p each
Issued share capital	£'000	No.
Allotted, called up and fully paid at 1 July 2007	528	52,803,699
New shares issued	124	12,438,210
Allotted, called up and fully paid at 30 June 2008	**652**	**65,241,909**
Authorised share capital		
At 30 June 2008	**1,000**	**100,000,000**
At 30 June 2007	750	75,000,000

During the year, 813,666 new ordinary shares of 1p were issued following the exercise of options under the Executive Incentive Plan and the Approved, Unapproved and SAYE share option schemes. The consideration received was £537,000 (2007: £357,000).

In addition, 11,624,544 new ordinary shares of 1p were issued in part consideration for the acquisition of *VetXX* Holdings A/S. The gross proceeds raised were £35.2 million.

Share Options
Details of outstanding share options over ordinary shares of 1p at 30 June 2008 under the various Group share option schemes are shown in note 23 to the Consolidated Financial Statements.

(xi) Reserves

	Share premium account £'000	Hedging reserve £'000	Profit and loss account £'000
At 1 July 2007	28,041	(71)	5,065
New shares issued	35,636	—	—
Share issue expenses	(1,511)	—	—
Profit for the financial year	—	—	13,872
Movement in hedging reserve	—	352	—
Dividend (see note 9 to Consolidated Financial Statements)	—	—	(4,420)
Share-based payments charge	—	—	603
At 30 June 2008	**62,166**	**281**	**15,120**

(xii) Subsidiary Undertakings

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

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

Company	Country of 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
Dechra Veterinary Products LLC	USA	USA	Distributor of veterinary products
Leeds Veterinary Laboratories Limited	UK	Great Britain	Non-trading
VetXX Holdings A/S	Denmark	Denmark	Holding company
VetXX A/S#	Denmark	Denmark	Marketer and manufacturer of veterinary pharmaceuticals and pet diets
VetXX OY¶	Finland	Finland	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products SAS¶	France	France	Marketer of veterinary pharmaceuticals and pet diets
VetXX DV¶	Holland	Holland	Marketer of veterinary pharmaceuticals and pet diets
VetXX AS¶	Norway	Norway	Marketer of veterinary pharmaceuticals and pet diets
VetXX Animal Health SLU¶	Spain	Spain	Marketer of veterinary pharmaceuticals and pet diets
VetXX AB¶	Sweden	Sweden	Marketer of veterinary pharmaceuticals and pet diets
VetXX Ltd¶	UK	Great Britain	Marketer of veterinary pharmaceuticals and pet diets

* 100% of ordinary share capital held by Veneto Limited. Voting preference shares held by Dechra Pharmaceuticals PLC Employee Benefit Trust.
§ 100% of ordinary share capital held by Dechra Investments Limited.
† 100% of ordinary share capital held by North Western Laboratories Limited.
‡ 100% of ordinary share capital held by Anglian Pharma Limited.
# 100% of ordinary share capital held by *VetXX* Holdings A/S.
¶ 100% of ordinary share capital held by *VetXX* A/S.

Glossary of Terms

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

Adjusted operating profit
Profit before interest, tax, amortisation of acquired intangibles and rationalisation costs relating to the acquisition of *VetXX* Holdings A/S.

Adjusted pre-tax profit
Profit before tax, amortisation of acquired intangibles and rationalisation costs relating to the acquisition of *VetXX* Holdings A/S.

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

Cushing's Disease
A condition caused by excess cortisol (see below) and is named after the physician who first described the condition in humans in the early twentieth century.

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

Hyperthyroidism
Occurs when the thyroid glands produce excessive amounts of thyroid hormone. This causes an increase in the animal's metabolism (the rate at which energy is burnt up).

Intertrigo
Refers to a bacterial, fungal or viral infection that has developed at the site of broken skin due to inflammation of body folds. This infection is common in dogs with folds such as Pugs or Shar Peis.

Malassezia
Yeasts that cause a secondary inflammatory skin disease. Malassezia is often found in otitis externa.

MHRA
Medicines and Healthcare products Regulatory Agency; an executive agency of the Department of Health.

NSAID
Non-Steroidal Anti-Inflammatory Drug; essentially drugs which relieve pain, swelling, stiffness and inflammation. *Equipalazone* is the leading NSAID for the treatment of musculoskeletal disorders in the horse.

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

Staphylococcal Infections
Communicable conditions caused by the Staphylococcus type of bacteria and generally characterised by pyoderma or the formation of abscesses.

Surface Pyoderma
Pyoderma is the medical term used to denote infections of the skin caused by bacteria. Surface Pyoderma is a bacterial infection which is confined to the surface of the skin; one of the commonest types is known as Pyotraumatic Dermatitis (acute moist dermatitis, or "hot spots"). It is typified by localised itching, moist, reddened skin patches and ulcerated lesions.

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