



Annual Report and Accounts
for the year ended 30 June 2009

Dechra Pharmaceuticals PLC

Annual Report and Accounts for the year ended 30 June 2009

An International Veterinary Pharmaceutical Business

Welcome to Dechra

Our Business

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

The Divisions

The Group comprises two divisions:
Pharmaceuticals and Services

Our Strategy

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

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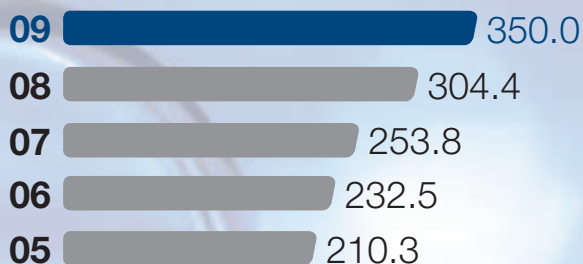
Forward-Looking Statements: This Annual Report contains certain forward-looking statements. The forward-looking statements reflect the knowledge and information available to the Company during the preparation and up to the publication of these Accounts. By their very nature, these statements depend upon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

Financial Highlights

Revenue

£ million

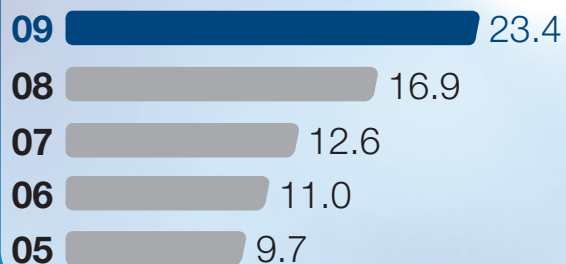
+15%



Adjusted Profit Before Taxation*

£ million

+39%



Profit Before Taxation

£ million

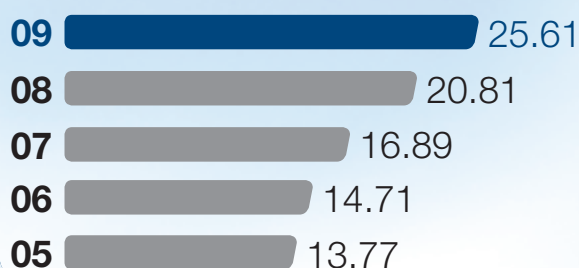
+38%



Adjusted Earnings per Share*

pence

+23%



Earnings per Share

pence

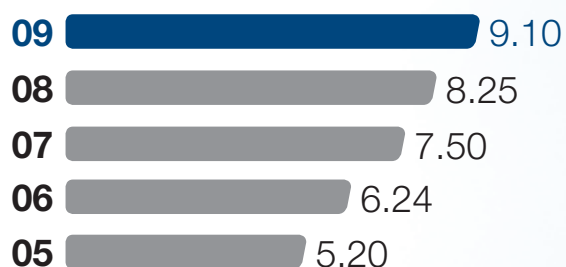
+22%



Dividend per Share

pence

+10%



* Adjusted for amortisation of acquired intangibles and exceptional costs

Key Achievements

- Good increase in revenue and profitability by both divisions
- Strong cash generation and low gearing
- New international product launches
- New development opportunities initiated
- International veterinary markets continue to grow
- Group performance remains in line with the Board's expectations



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Our Business

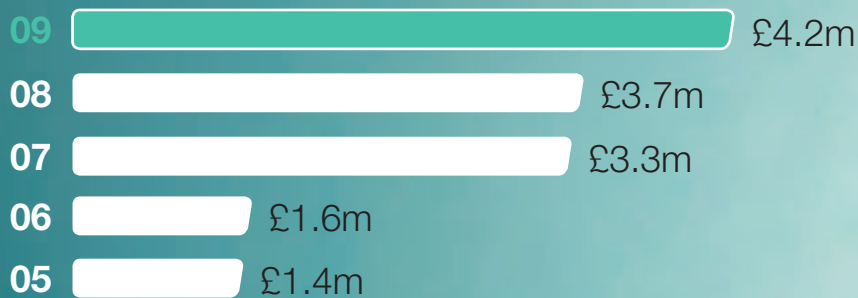
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Product Development Investment

Cash investment in product development over five years



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 has been made throughout the year being reported and, following identification of new development opportunities (see page 21), a further significant increase will be made in the new financial year.





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£4.2 million
invested in product
development during
2008/2009

Launches in 2009

There have been a number of major achievements in the year, the most significant of which being full FDA approval of *Vetoryl* and *Felimagazole*. Further product introductions are scheduled for the new financial year.

Malaseb®

We have achieved registration of *Malaseb* through the Mutual Recognition procedure for Scandinavia, Holland and Ireland. Application for approval for the remaining EU territories has been submitted and marketing is planned for Quarter 3 of the 2009/2010 financial year.



Specific® Joint Support

A new therapeutic canine diet has been developed and marketed to aid the treatment of osteoarthritis in dogs. The product, known as Joint Support, has been approved by opinion leaders and is recognised as the best product in its category.





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Felimazole® in the USA

Felimazole was approved for marketing in the US in May 2009. Marketing plans have been completed and the product is scheduled to be launched in September 2009. The initial response from distributors has been very positive and forward orders have already been received.



Vetoryl® in the USA

Following its approval in December 2008 *Vetoryl* was launched into the US market in January 2009. It has been well received by opinion leaders and our representatives are having a high success rate in converting veterinary practices to treat dogs with *Vetoryl*.



Group at a Glance

Pharmaceuticals Division



Dechra Veterinary Products ("DVP")

Marketing and development of licensed branded pharmaceuticals and specialist pet foods to the veterinary profession worldwide



Pharmaceuticals Revenue

up **57%**
to **£85.2 million**
(2008: £54.3 million)

Dales® Pharmaceuticals ("Dales")

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

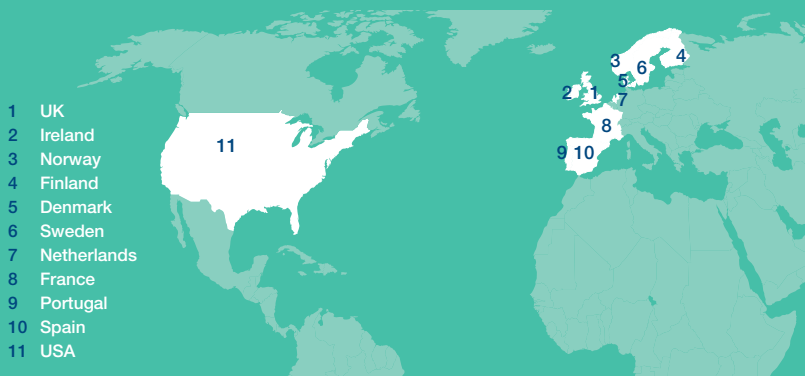


Share of Total Group Revenue

24%

Share of Adjusted Operating Profit

55%



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

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

Services Division



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



National Veterinary Services

NationWide Laboratories (“NWL”)

Multi-disciplined independent commercial veterinary laboratory



Cambridge Specialist Laboratory Services (“CSLS”)

Primary and secondary referral specialist veterinary immunoassay laboratory



Cambridge Specialist Laboratory Services

Services Revenue

up **6.5%**
to **£276.1 million**
(2008: £259.4 million)

Share of Total Group Revenue

76%

Share of Adjusted Operating Profit

45%

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Chairman's Statement



“Despite the current uncertain economic outlook, the majority of the markets in which we trade continue to show growth although at a slower rate than historically . . . The Group's current performance is in line with the Board's expectations”

Introduction

I am pleased to report an increase in revenue and profitability at both our Pharmaceuticals and Services Divisions. Furthermore, the Group has made progress in its pharmaceutical strategy with key products licensed and launched in the US, Canada and the EU and new product development opportunities identified.

Financial Highlights

Group revenue increased 15.0% from £304.4 million to £350.0 million.

Adjusted operating profit increased by 30.5% to £25.0 million (2008: £19.1 million). Adjusted profit before taxation rose 38.9% to £23.4 million (2008: £16.9 million). Operating profit after deducting exceptional costs and amortisation of acquired intangibles was £17.7 million (2008: £14.1 million). Profit before taxation on the same basis was £16.1 million (2008: £11.7 million).

Adjusted basic earnings per share was 25.61p, up 23.1% from the 20.81p achieved in 2008. Earnings per share after exceptional costs and amortisation of acquired intangibles was 17.27p (2008: 14.20p).

Total cash investment in product development was £4.2 million (2008: £3.7 million), of which £3.4 million was charged to the income statement (2008: £2.4 million). In addition, a payment of £470,000 was made to acquire technology for our product development programme. This has been shown as an exceptional cost due to its size and infrequency.

During the year, Group cash flow was strong with cash flow from operations being 156.0% of operating profit (2008: 114.1%). Group net borrowings were reduced by £11.5 million in the year from £27.0 million at 30 June 2008 to £15.5 million at 30 June 2009. This was despite an adverse currency impact of £1.5 million. The Group has committed bank facilities totalling £52.5 million.

Net borrowings to EBITDA on an adjusted basis was 0.57 times (2008: 1.3 times). Interest cover on adjusted operating profit was 16.0 times (2008: 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 6.10p per share (2008: 5.50p per share). This, together with the interim dividend of 3.00p per share (2008: 2.75p per share), makes a total dividend for the year of 9.10p per share (2008: 8.25p per share), a 10.3% increase.

The total dividend is covered 2.8 times by profit after taxation but after adding back amortisation of acquired intangibles.

The final dividend, which is subject to Shareholder approval at our Annual General Meeting to be held on Friday 6 November 2009, will be paid on 11 December 2009 to Shareholders on the Register at 13 November 2009.

People

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

Prospects

Despite the current uncertain economic outlook, the majority of the markets in which we trade continue to show growth although at a slower rate than historically. Within the UK, current market growth has been as a result of price inflation rather than volume growth, with livestock products outperforming the companion animal sector. The Group's current performance, however, is in line with the Board's expectations. The Group will be enhanced by new product launches and by growth from our existing portfolio. Additionally, we are realising good month on month growth from *Vetoryl* within the USA and our European specialist pet diets business is exceeding our expectations. We therefore remain confident in our future.

Michael Redmond

Chairman

1 September 2009

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.

The Group's strategy is:

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

The Group employs 1,024 people, an increase of 54 in the financial year, and operates out of 11 countries.

The veterinary market for companion animal products has grown strongly over the last ten years. Veterinary care is the fastest growing sector of the pet industry. 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 consumers' passion for their animals.

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

Companion Animal Populations in Dechra Territories

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

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

Companion Animal Populations in Important Non-Subsidiary Countries

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

Growth in 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. The UK market, as with most other international markets in which we trade, has continued to demonstrate growth throughout the current recession, albeit at a slower rate than historical trends.

“The veterinary market for companion animal products has grown strongly over the last ten years. Veterinary care is the fastest growing sector of the pet industry”

Directors' Business Review

Key Products and Specialisations

Dermatology

Canaural[®] was first licensed in 1975 and is still the leading first line treatment in several EU territories for otitis externa in the cat and dog. *Canaural*, which is now registered in 25 countries, can also be used in conjunction with our leading ear cleaning product *CleanAural*[®].



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

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

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

Endocrinology

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

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

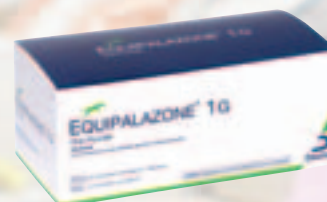


Felimazole was the first veterinary licensed product for the treatment of feline hyperthyroidism, originally licensed in the UK in 2002. *Felimazole* was licensed in the EU in 2005, the US in 2009 and has been submitted for approval in new markets.

Equine Medicine

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

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



Ophthalmology

Ophthalmology is 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.

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

Critical Care

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

The *Vetivex* range of infusion fluids are licensed for the treatment of dehydration. They are widely used to meet normal fluid and electrolyte requirements when fluids cannot be given orally, such as during surgery. The licences were purchased in 2005.

Pet Diets

Dechra has two main cat and dog diet product ranges, both branded *Specific*, which are sold exclusively through veterinary practices. Therapeutic diets, which represent 70% of diet sales, provide optimum levels of nutrition in areas such as diabetes, arthritis and urinary, kidney, liver and heart problems. Our recently launched products, Joint Diet and Hypoallergenic Diet, are considered by opinion leaders to be the best products in their category in the market. Life stage diets, which represent 30% of diet sales, provide premium quality daily nutrition for healthy dogs and cats.



Directors' Business Review

Care

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

Marketing Agreements

A number of products are also sold through our global subsidiaries under marketing agreements; with Virbac Inc. to market *Thyroxy*[®] within the UK and Ireland; with Eurovet to market *Domidine*[®], *Sedator*[®] and *Atipam*[®] in the UK and Ireland; with Orthogen to market *Irap*[®] in the US; with Peptech to market *Ovuplant*[®] in the EU, and with Biopure to market *Oxyglobin*[®] within the US and EU. Due to their failure to bring their human product to market, Biopure will no longer be producing *Oxyglobin*; we do, however, have sufficient stock of this critical care product to maintain supply for several months.

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 product portfolio of novel and generic pharmaceuticals and specialist pet diets and the marketing of these key products into international markets. Our product development is focused in two areas:

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

Legislation

There are three pieces of legislation which the Directors believe have been implemented to encourage development of specialised veterinary pharmaceutical 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 pharmaceutical 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 and 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 products for the veterinary market achieved from 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; and
- Industry leading veterinary and commercial personnel throughout the Group.

Directors' Business Review

Development Achievements

There have been a number of major achievements in the year, the most significant of which being full FDA approval for *Vetoryl* and *Felimazole*. In June 2009 we also received supplemental approval to market a low dose range extension for 10mg *Vetoryl* capsules for the US. Further details on our marketing activities are disclosed later in this review.

Vetoryl has also received approval within Australia and Canada. Marketing through our partners in these territories, Dermcare and Vetoquinol, will commence imminently following shipment of initial stock from our manufacturer, *Dales Pharmaceuticals*.

We have achieved registration of *Malaseb* through the Mutual Recognition procedure for Scandinavia, Holland and Ireland. Application for approval for the remaining EU territories has been submitted and marketing is planned for Quarter 3 of the new financial year.

A new therapeutic canine diet was also developed and marketed to aid the treatment of osteoarthritis in dogs. The product, known as Joint Support, has been approved by 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 has been made throughout the year being reported, and as stated in the Half Year Financial Report and the Pre-Close Update, the Directors are planning for a further significant increase in development spend of £2.5 million in the new financial year.

Product Pipeline

Within the year four new chemical entities have received internal approval for development. Two of these products were subject to Dechra in-licensing technology, the details of which were provided in announcements made on 27 March 2009 and 3 June 2009. A fifth product, *Equidone*[®] for equine fescue toxicosis, was licensed in December 2007 from Equi-Tox and is in the regulatory phase in the US.

A number of generic products and diets are also under development. The main projects are outlined below. The charts show the approximate percentage completion of the key stages of the development process.

New Chemical Entities

Species	Therapeutic Category	Manufacturing	Safety	Efficacy	Regulatory
Equine	Endocrine	100%	100%	100%	25%
Equine	Lameness	100%		25%	
Canine	Endocrine	50%		25%	
Feline	Endocrine	50%			
Equine	Respiratory	25%		25%	

Generics

Species	Therapeutic Category	Manufacturing	Bioequivalence	Regulatory
Canine	Urinary Disease	100%	100%	50%
Canine/Feline	Antibiotic	100%	100%	25%
Canine/Feline	Pain Management	75%		
Canine	Dermatological	50%		
Canine	Cardiac	25%		

Diets

- Four of our canine diets are at an advanced stage of development to create second generation products;
- A novel product has also been formulated and test production is expected imminently prior to commencement of palatability and efficacy trials;
- Our hydrolysed feline diets have been developed to improve palatability. Production is planned for Quarter 3 of the new financial year with the launch anticipated in Quarter 4.

The products outlined above will compete in cumulative global markets in excess of £100 million. All the new chemical entities will have a clinical advantage over the current licensed products and should therefore perform strongly once approved. Furthermore, additional product opportunities, generics, range extensions and diets, are currently under review.

Development Team

We have a highly skilled development team of 24 people located in the UK, Denmark and the US. With the impending trial work required to complete the projects outlined, we are continuing to invest globally in experienced personnel.

The new pharmacovigilance monitoring and reporting system implemented last year has now been fully validated allowing electronic submission of data to the EU regulatory agencies.

Directors' Business Review

Pharmaceuticals Division

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

Dechra Veterinary Products EU

DVP EU, located in Shrewsbury, England and Uldum, Denmark, employs 207 people. The business markets and sells our own branded, licensed veterinary products within ten European countries and manages the relationships with our worldwide marketing partners.

Sales Structure

France	16	Holland	6
UK	14	Norway	5
Spain	8	Finland	4
Denmark	5	Portugal	1
Sweden	5	Eire	1

Following the successful integration of the *VetXX*® business, acquired in January 2008, we are seeing the benefits from the enlarged business and are now focused on identified growth opportunities. All our international businesses have been re-branded to "DVP". The transfer of products into Dechra livery continues and should be completed prior to the end of 2009. We are currently in the process of developing an IT strategy for the enlarged international business with Oracle having been identified as our preferred ERP solution.

"Following the successful integration of the VetXX business, we are seeing the benefits from the enlarged business and are now focused on identified growth opportunities"

Pharmaceuticals

European pharmaceutical sales increased by 49.5% (8.9% on a like-for-like basis). During the year two major products were launched; *Malaseb* in Denmark, Holland, Sweden and Finland, with the rest of Europe planned for Quarter 3 of the new financial year. *Felimazole* 2.5mg was launched in France, Holland and Germany following its approval in April 2009. Launch in other European territories is planned for Quarter 2 of the new financial year. The original 5mg presentation of *Felimazole*, which was originally marketed by Janssen Animal Health, returns to Dechra at the beginning of 2010. Current sales of 5mg *Felimazole* to Janssen are £877,000 annually, from which we will realise the benefit of the marketing margin currently taken by Janssen. *Felimazole* sales in the UK have fallen by 11.9% within the year due to the introduction of a competitor product. We have stabilised our market share at approximately 60% in a market which continues to grow.

DVP EU — Management Team



- 1 **Ed Torr**
Managing Director
- 2 **Jørgen Eker**
Chief Financial Officer
- 3 **Carsten Jeppesen**
Chief of Logistics
- 4 **Roeland Meijers**
Director of Diets
- 5 **Giles Coley**
European Pharmaceutical Sales & Export Director



Felimazole remains a novel product in the EU. Sales of *Vetivex*, our range of critical care fluids, have also slightly declined as they came under competitive pressure. Initiatives have been introduced to reverse this trend. All other major pharmaceutical product groups across Europe have demonstrated growth.

Diets

Specific diet sales grew by 6.5% on a like-for-like basis. This performance was assisted by excellent market penetration of our allergy diets launched in 2008 and by the introduction of a canine joint diet launched in May 2009. Both are recognised as the best products in their category in the market.

The validation and transfer of a number of products to a new manufacturer

is under way, with the new source expected to produce commercial batches by the end of the 2009 calendar year. Our new manufacturing partner offers numerous benefits including improved quality control, more modern flexible packaging opportunities and nitrogen flushing to improve freshness. Furthermore, they will provide important formulation, development and palatability testing support as we continue to expand and improve the range.

The range of diets has been launched in Germany by our marketing partner Selectavet. Initial indications have been encouraging. *Specific* has also been launched in Turkey by Asvet. Dechra is in the process of acquiring a 40% share of Asvet for a nominal sum in return for providing improved credit facilities, marketing and technical support.

DVP UK — Management Team



- 1 **Bob Parmenter**
Managing Director
- 2 **Mark Sallin**
Finance Director
- 3 **Gwenda Bason**
Marketing Director
- 4 **Chris Kingdon**
Sales Director

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Directors' Business Review

Pharmaceuticals Division continued

DVP USA — Management Team



- 1 **Mike Eldred**
President
- 2 **Doug Hubert**
US Sales and Marketing Manager
- 3 **Dana Fertig**
Veterinary Technical Services Manager
- 4 **Bryan Toliver**
Equine Business Manager

Dechra Veterinary Products USA

This business has been considerably strengthened throughout the year and now employs 18 people, nine of which are in sales. We are continuing to recruit sales personnel to further strengthen the team.

Following its approval in December 2008, *Vetoryl* was launched into the US market in January 2009. Initial sales of the product, of \$2.24 million, were slightly below our expectations; however, our longer term expectations for this product have not changed.

Prior to *Vetoryl*'s launch, a significant market had developed for Trilostane, the active principal ingredient in *Vetoryl*. In the US, State regulated compounding pharmacies are able to prepare product where there is a clinical need in animals

where no licensed alternative exists. Despite this activity becoming illegal once *Vetoryl* was approved by the FDA, it is apparent that it is still continuing at a high level. Although the FDA support our case it has no jurisdiction over the pharmacies which are controlled by State laws. This is a high profile issue within the US veterinary market which is coming under increasing scrutiny as ourselves and other animal health companies increase pressure for the activities of compounders to be better regulated.

Our representatives, however, are having a high success rate in converting veterinary practices to the use of *Vetoryl*. Furthermore, we have held 25 regional presentations which have been attended by over 1,000 veterinary surgeons. The feedback from meeting attendees was that their future preferred treatment will be *Vetoryl*. Furthermore, two major corporate groups, who own over 1,000 clinics, have both approved *Vetoryl* for use.

In June 2009 we received supplemental approval for *Vetoryl* 10mg capsules. The 10mg strength, which will be launched in September 2009, will provide flexible dosing options for all sizes of dogs and will strengthen our position against the compounding pharmacies.

“Our representatives are having a high success rate in converting veterinary practices to the use of Vetoryl. We have also held 25 regional presentations which have been attended by over 1,000 veterinary surgeons”

Marketing plans have been completed prior to the launch of 2.5mg and 5mg *Felimazole* coated tablets in September 2009. The initial response to the product from distributors has been very positive and forward orders have already been received.

Dales

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

Dales has continued its excellent performance demonstrated last year with increased production of our own licensed products and from further growth in third party sales. Seven new products have been introduced from third party customers within the year and a five-year supply agreement has been signed with our biggest contract customer. *Fuciderm*, one of our own key products where manufacturing was previously outsourced, will soon be produced in-house and is currently under validation.

The first phase in the introduction of lean manufacturing techniques has been completed during the year. By applying these techniques significant improvements in working practices and efficiencies have resulted. Average processing time for a batch of product has been reduced over the course of the year by 42% (from 55 days to 32 days).

A new purified water system has been installed and is close to completing the required validation prior to commercial use early in the new financial year.

The *Dales* management team have become closely involved in the manufacturing activities in Uldum, Denmark which came into the Group following the acquisition of *VetXX*. The first step towards implementing the new ERP system across DVP EU, as outlined earlier in this review, will be the implementation of Oracle at our Uldum manufacturing site. This should improve efficiency and create better synergies across our two manufacturing sites.

We are in the process of seeking FDA approval to manufacture products for the US market. An FDA Project Team Leader was recruited in the year who has excellent previous experience. Progress is in line with our schedule as we look to apply for an FDA inspection in the first half of 2010.

Dales — Management Team



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

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Services Division

NVS — Management Team



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

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

NVS

NVS, located in Stoke-on-Trent, England, employing 483 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 Dunlops, both of which are under American ownership.

NVS stocks a range of over 14,000 products including pharmaceuticals, pet products, consumables and accessories. NVS has also developed a range of IT solutions for veterinary practices which are branded *Vetcom*[®]. *Vetcom*'s principal objective is to collect orders electronically. Throughout the year we have increased the number of orders received electronically and now approximately 85% 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. 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 nine trunking depots by HGVs. Van drivers are then employed locally at these depots who distribute the goods to our customers.



NVS Network



NVS services both companion animal and livestock practices and agricultural merchants. As with other UK businesses within Dechra, NVS has grown in line with, and benefits from, the good year-on-year growth in the veterinary market. The market has seen growth of approximately 6.8% in the year, with growth in agricultural products being greater than in companion animal products. This growth is driven by both inflation and volume. Whilst volumes have continued to increase it has been at a lower rate than in previous years. The growth at NVS was achieved with improved operating efficiencies resulting in a strong performance from the business.

“The growth at NVS was achieved with improved operating efficiencies resulting in a strong performance from the business”



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Services Division continued

NVS has also benefited from our relationship with key corporate customers, who continue to outgrow the market, and by our flexibility in providing high levels of services to all practice types; our service level has consistently achieved over 99% throughout the period. New van routes have been added to cater for the additional growth and investment has been made in new tractor units for our overnight haulage of orders into the regional depots. This new fleet has provided the benefit of being more efficient in fuel utilisation. As reported in our Trading Update on 7 July 2009, following the continuing expansion of NVS, an opportunity has arisen to increase warehouse capacity at our central logistics facility. Additionally, we intend to go live on a new ERP system in the forthcoming financial year. We anticipate annualised additional costs to be approximately £1.0 million.



NVS celebrated its twentieth anniversary in 2009; a champagne reception was held at the industry's annual convention to commemorate the event.

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 increased strongly during the year.

The Laboratories sales team has been restructured with the appointment of a new Sales Manager and two additional representatives. Towards the end of the period new accounts were being secured. We have upgraded clinical chemistry equipment at Leeds and Poulton-le-Fylde and have also replaced the haematology equipment at Leeds. These new systems will improve speed and efficiency.

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. Investment has been made in new custom laboratory facilities for CSLS who are due to relocate to this site early in the new financial year.

Laboratories — Management Team



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



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Financial Key Performance Indicators ("KPIs")

	2009	2008
	£'000	£'000
Revenue — pharmaceuticals	85,190	54,302
— services	276,141	259,363
— inter-division	(11,367)	(9,294)
Total revenue	349,964	304,371
Adjusted operating profit before product development cost	28,404	21,550
Product development cost	(3,433)	(2,408)
Adjusted operating profit	24,971	19,142
Adjusted operating margin		
— before product development cost	8.1%	7.1%
— after product development cost	7.1%	6.3%
Cash conversion rate	156%	114%
Gearing (i)	16.1%	27.3%
Return on capital employed (pre-tax) (ii)	19.4%	23.3%
Revenue per employee	346	342
Inventory days (iii)	39	43
Receivables days (iv)	37	39

Financial Ratios

Adjusted interest cover	16.0 times	8.4 times
Effective tax rate	29.8%	28.9%
Dividend cover (before amortisation of acquired intangibles)	2.8 times	2.0 times

- (i) Gearing is calculated by dividing net borrowings by the sum of Equity Shareholders' funds and net borrowings.
- (ii) Return on capital employed is calculated by dividing adjusted operating profit by average operating assets utilised during the year. Operating assets exclude cash and cash equivalents, borrowings, tax and deferred tax balances.
- (iii) Inventory days are calculated by determining the number of days' purchases, counting back, included in the year end inventory figure.
- (iv) 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.

Financial Review

Group Performance

During the financial year being reported on, the global economy has suffered its worst recession since before the Second World War. Although not as badly impacted as many other industries, the veterinary market has not been immune from the effects of this recession. Within the UK, the veterinary market grew by 6.8%, well below the 10.0% recorded for the preceding year. The overall market growth figure was boosted by a robust performance from the livestock sector. In contrast, many companion animal veterinary practices have seen a reduction in volumes.

Against this backdrop, the focus of the Group from a financial perspective has been to achieve efficiency improvements and

reduce working capital to release cash into the business without compromising the quality of our customer service.

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

Group revenue increased by 15.0% to £350.0 million whilst adjusted operating profit was up by 30.5% to £25.0 million. Adjusted pre-tax profit, at £23.4 million, was ahead of last year by 38.9%.

Pharmaceuticals Division

	2009	2008
	£'000	£'000
Revenue		
Own branded pharmaceuticals	49,000	32,136
Diets	22,716	9,915
Third party contract manufacturing	10,369	8,677
Instruments, consumables and equipment	3,105	3,574
Total revenue	85,190	54,302
Adjusted operating profit	15,340	10,765
Adjusted operating margin	18.0%	19.8%

Total revenue of the Pharmaceuticals Division increased by 56.9% compared to the prior period. This included the full year effect of Dechra Veterinary Products Holdings A/S (formerly VetXX Holdings A/S) acquired in January 2008. Like-for-like revenue growth was 16.5%.

Revenue from own branded pharmaceuticals continues to grow, driven this year in particular by the continued penetration of *Vetoryl* into new and existing markets. Global revenue from *Vetoryl* for the year reached £8.1 million, up 56.6% compared to the £5.1 million achieved in the prior year. Within this figure, revenues of \$2.2 million (£1.4 million) were achieved in the USA following the launch in January 2009. Although these initial revenues were below our expectations, recent sell-out trends have been encouraging.

Equipalazone also performed strongly with global revenue growing by 38.5% from £3.0 million to £4.2 million. Towards the end of the 2007/8 financial year, we regained the marketing rights for this product in France from our previous partner.

Global revenue for *Felimazole* was flat at £3.9 million with a reduction in the UK being offset by an increase in the remainder of Europe.

Diets performed strongly with a like-for-like increase of 6.5% compared to the prior year. This was particularly pleasing in the current economic environment as these are, to an extent, discretionary spend products. We have benefited in the current year from improvements to the range, maintaining our veterinary

exclusive focus and ensuring that our range is competitively priced.

Revenue from third party contract manufacturing increased by 19.5% to £10.4 million due to increased production on both new and existing contracts.

Revenue from instruments, consumables and equipment fell by 13.1% to £3.1 million due to the loss of a distribution agreement.

Product development expenditure charged to the income statement was £3.4 million, (excluding the payment of £470,000 to in-license technology for the research and development programme shown as an exceptional item) compared with £2.4 million last year, an increase of 42.6%. A further £0.8 million of expenditure was capitalised making a total cash spend for the year of £4.2 million compared with £3.7 million last year.

Adjusted operating profit for the division increased by 42.5% to £15.3 million. The like-for-like increase, including a full year of *VetXX* in the comparative figures, was 10.1%.

Adjusted operating margin fell slightly from 19.8% to 18.0%, reflecting a full year of the lower margin *VetXX* business.

Services Division

	2009	2008
	£'000	£'000
Revenue		
Veterinary wholesaling	270,772	253,973
Laboratories	5,369	5,390
Total revenue	276,141	259,363
Adjusted operating profit	12,334	10,693
Adjusted operating margin	4.5%	4.1%

Divisional revenue grew by 6.5% in the year with our veterinary wholesaling business, *NVS*, growing by 6.6%. This was marginally below the overall market growth because of the good performance of the livestock sector where *NVS* is relatively under-represented.

NVS achieved excellent efficiencies during the year enabling operating profit to grow by 17.1%. Revenue for the Laboratories for the year was flat with operating profit slightly lower than last year.

Directors' Business Review

Unallocated Central Costs

Unallocated central costs increased from £2.3 million to £2.7 million which was principally salaries.

Effect of Currency Movements

The principal currencies, other than Sterling, that the Group transacts in are Euros, Danish Kroner (which is pegged to the Euro), US Dollars and, to a lesser extent, Swedish and Norwegian Kroner.

The volatility in exchange rates during the period being reported on, and particularly the devaluation of Sterling, has had an impact on the results of the Pharmaceuticals Division as detailed below. The Services Division has only very limited exposure to foreign currencies.

The devaluation of Sterling against the US Dollar has had a positive impact of approximately £200,000 on the operating profit of the Pharmaceuticals Division. The effect of the devaluation of Sterling against the Euro and Danish Krone is more complex. Although the Group has benefited on the translation of the results of DVP EU from Danish Krone to Sterling, there has been

a negative impact on purchasing costs. Overall, there was a negative impact on the current year's Pharmaceuticals Division operating profit of approximately £500,000.

Additionally, the Group has made a gain of £1.0 million on the retranslation of balance sheet items which is shown within finance income.

Return on Capital Employed

Return on capital employed reduced from 23.3% to 19.4%. This was due to the full year effect of the *VetXX* acquisition and the significant increase in the asset base arising therefrom.

Net Finance Expense

The net finance expense was £1.57 million compared with last year's figure of £2.29 million. Finance expense increased due to the full year effect of the increased borrowing levels taken on in January 2008 to partially fund the acquisition of *VetXX*. However, this was offset by a £1.0 million gain on the retranslation of foreign currency balances.

The net finance expense was covered 16.0 times by adjusted operating profit (2008: 8.4 times).

Taxation

The effective tax rate was 29.8% (2008: 28.9%) with the contributors to the higher than standard rate of 28% being differences in overseas tax rates and expenditure not allowable for tax purposes.

Earnings per Share and Dividend

Adjusted earnings per share increased by 23.1% to 25.61p.

The Board is proposing a final dividend of 6.10p per share which, when added to the interim dividend of 3.00p per share already paid, gives a total dividend for the year of 9.10p, a 10.3% increase over the 2008 figure of 8.25p.

The total dividend is covered 2.8 times by profit after tax after adding back amortisation of acquired intangibles (2008: 2.0 times). The increase in dividend cover is considered by the Board to be prudent in the current uncertain economic environment and the planned significant increase in product development costs.

Cash Flow

The strong focus on cash flow during the period has helped to achieve a cash conversion rate (defined as cash generated from operations as a percentage of operating profit) of 156.0% compared to 114.1% in the prior period. If amortisation of acquired intangibles is added back to operating profit, then the conversion rate was 112.5% (2008: 94.2%).

During the year, the Group made the final milestone payments relating to the acquisition of the rights to Trilostane (the active ingredient for *Vetoryl*) for animal health applications in the USA. Further capital investment was made in continuing to upgrade our *Dales* manufacturing facility. The Group also made a payment of £470,000 to in-license technology for the research and development programme. This item was expensed and is shown as an exceptional cost.

Financial Position at the Year End

	2009 £'000	2008 £'000
Non-current assets		
Intangible assets	89,565	90,375
Property, plant and equipment	8,040	8,224
Deferred tax assets	—	1,053
	97,605	99,652
Working capital	17,548	17,284
Current tax liability	(4,756)	(2,824)
Deferred tax liabilities	(14,184)	(15,316)
Net borrowings	(15,527)	(26,997)
Equity Shareholders' funds	80,686	71,799

The strong focus on the control of working capital during the year has meant that net working capital is broadly consistent with last year's level, despite the increased revenues.

Inventory was below last year's level in absolute terms with inventory days showing a significant improvement from 43 days to 39 days.

Receivable days also showed an improvement from 39 days to 37 days. There was a pleasing reduction of gross receivables overdue more than 30 days of £0.7 million whilst an additional impairment provision of £1.1 million has been recognised.

Net borrowings were reduced by £11.5 million in the year from £27.0 million at 30 June 2008 to £15.5 million at 30 June 2009 despite an adverse impact of £1.5 million due to the retranslation of borrowings in foreign currencies. As normal, due to the working capital cycle of the Group, we expect net borrowings to increase at the next reporting date of 31 December 2009.

The Group has committed bank facilities totalling £52.5 million, including an overdraft facility of £10 million renewable on 31 August 2010.

Directors' Business Review

Non-Financial Key Performance Indicators:

The two Non-Financial KPIs which the Board consider key in assessing the performance of our Business relate to our health and safety performance and employee turnover and these are explained in more detail below. The Board will continue to monitor these Non-Financial KPIs on an ongoing basis and will report on them in future Annual Report and Accounts.

Whilst the Board takes all issues in relation to the environment and the community seriously it does not, given the current strategy of the business, consider the information it monitors in these areas to be key measurement indicators as to how well the business is performing in line with the established strategy. Activity during the year in respect of the environment and the community can be found within the Social, Ethical and Environmental Section on pages 59 to 62.

Non-Financial Key Performance Indicators

	2009 £'000	2008 £'000
Lost Time Accident Frequency Rate	0.94%	—
Employee Turnover	19.81%	—

1. Health and Safety Performance

The Company recognises that its most important asset is its people and aims to ensure that all employees are provided with a safe working environment; therefore, the Company's goal is to work towards minimising the number of accidents. We measure our performance in this area by reference to Lost Time Accident Frequency Rates ("LTAFR"). In doing so we take into account the UK Health & Safety Executive's definition of a reportable lost time accident, i.e. accidents resulting in absence or the inability of employees to conduct the full range of their normal working activities for a period of more than three days after the day when the incident occurred.

The LTAFR is a calculation of all injuries that would be statutorily reportable under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR), normalised per 100,000 hours worked. This measure provides information to help monitor and control accidents and injuries to the workforce and is widely used as a key performance indicator throughout industry.

During the 2008/2009 financial year there have been a total of 16 accidents resulting in absence from work of more than three days resulting in a year to date LTAFR of 0.94. All such accidents are reported to the Board along with information in relation to what (if any) remedial action has been taken in order to prevent an accident of a similar nature occurring in the future.

2. Employees

We recognise that the success of the Group is dependant on our ability to attract, develop, motivate and retain skilled employees. Given the level of training requirements across the Group, continuity of staff leads to improved efficiencies. We do recognise that new staff bring new ideas to the Group, however, we consider that our current staff turnover at senior level and our continuity plans successfully achieve this.

Labour turnover for the Group is measured using the standard formula:

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

Turnover is measured on a monthly basis within each of the operating businesses, from which a Group total is calculated which is subsequently reported to the Board.

There has been a significant improvement of over 10% across the Group since the start of the 2008/2009 financial year. The Moving Annual Turnover at the end of the year stands at 19.81% (including temporary workers). According to the CIPD Recruitment, Retention and Turnover Survey 2009, the national average for private sector employers is 16.8%. However this is not directly comparable due to the fact that a high percentage of the Group's employees work irregular shifts.

A Group exit interview process for staff resigning, improved methods of recruitment and a management skills training programme have all been introduced during the year and have played their part in reducing staff turnover. These processes are set to continue during the coming year and, together with the introduction of a Leadership Development programme at senior level, linked to the Company's succession planning, further reductions in employee turnover are expected.

We are not able to benchmark the 2008/2009 performance against prior years in respect of the two indicators outlined above as we have only started to collate this information during the financial year being reported on; we will provide comparator figures in the future.

Risks and Uncertainties

As we have stated in previous reports, the Group, like every business, faces risks and uncertainties in both its day-to-day operations and through events relating to the achievement of its long-term strategic objectives.

The Board has ultimate responsibility for risk management within the Group and there is an ongoing and embedded process of assessing, monitoring, managing and reporting on significant risks faced by the separate business units and by the Group as a whole. More detail in relation to this process can be found within the Corporate Governance section on pages 44 to 48.

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

Risks	Controls
Further effects of the economic slowdown across one or more of our markets or territories.	The Group has a number of new products yet to achieve their full market potential; there are also a number of imminent launches of new products and also existing products being launched into new markets.
The failure of a major customer or supplier.	The business units closely monitor the financial status of both key customers and suppliers.
Failing to meet regulatory requirements under which we operate thereby disrupting our operations and our product manufacture pipeline.	The Group always strives to exceed regulatory requirements and ensures that its employees have detailed experience and knowledge of the regulations. All businesses have clearly established quality systems and procedures in place.
Revenue from recently launched new products failing to meet expectations.	The Group ensures that it has detailed market knowledge and retains close contact with customers through its sales teams which are consistently trained to a high standard.
Loss of key personnel at both Board and Operational levels could have a short-term impact.	The Group has training and key personnel succession plans in place, which are regularly reviewed. Further, the Group ensures that it rewards strong performance via its remuneration packages.



Ian Page

Chief Executive

1 September 2009



Simon Evans

Group Finance Director

1 September 2009



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Board of Directors



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

Executive Directors

Ian Page

Chief Executive

Aged 48, 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 45, 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 49, 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

Chairman of the Nomination Committee

Aged 65, Michael joined the Group as a Non-Executive Director in April 2001, and was appointed Chairman in July 2002. He has extensive pharmaceutical industry experience having begun his career with Glaxo and through senior positions with Schering Plough Corporation. In 1991, he joined *Fisons plc* and in 1993 was appointed to the Board as Managing Director of the Group's Pharmaceuticals Division. Michael left *Fisons* in 1995 following its takeover by *RPR*. In February 2009, Michael was appointed Deputy Chairman of *Abcam PLC*, an AIM listed company.

Malcolm Diamond MBE *†•

Senior Independent Non-Executive Director

Chairman of the Remuneration Committee

Aged 60, Malcolm joined the Board in August 2000. He is a Non-Executive Director at the Unicorn AIM VCT II Investment Fund. In March 2009, Malcolm was appointed Executive Chairman of *Trifast plc*; he had previously held the position of Chief Executive at *Trifast* for 18 years until 2002. In addition, Malcolm is Chairman at *CWO Limited* and also advises a number of private businesses on their strategic planning, management development programmes and marketing initiatives.

Neil Warner BA, FCA, MCT *†•

Non-Executive Director

Chairman of the Audit Committee

Aged 56, 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*.

* Member of the Audit Committee

† Member of the Remuneration Committee

• Member of the Nomination Committee

Senior Management



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

Martin Riley

Managing Director, National Veterinary Services

Aged 45, 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 39, 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 49, 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 41, 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 51, Susan joined the Group in June 2005. She has 20 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 48, Barbara joined the Group in April 2008. Prior to joining Dechra she had 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.

Zoe Goulding LLB (Hons)

Company Secretary and Solicitor

Aged 35, 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 2009.

Principal Activity, Business Review and Future Developments

The Company acts as a holding company to all the Group's subsidiaries. The Pharmaceuticals Division develops, markets and sells veterinary pharmaceuticals and specialist pet diets into international companion animal markets. Additionally, the Pharmaceuticals Division manufactures the majority of the Group's own branded pharmaceutical products and manufactures both veterinary and human pharmaceuticals on a contract basis for third parties. The Group's Services Division distributes veterinary products, including pharmaceuticals, specialist pet diets and instruments to veterinary practices within the United Kingdom.

The Chairman's Statement and the Directors' Business Review on pages 12 to 35 provide a review of the Group's business, likely future developments and include information in respect of:

- Development and performance of the Group in the year;
- Principal risks and uncertainties faced by the Group; and
- Financial and Non-Financial 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 59 to 62, and details of the Group's policies in relation to Corporate Governance are disclosed on pages 44 to 48.

Share Capital

The authorised share capital of the Company as at 30 June 2009 was £1,000,000 divided into 100,000,000 ordinary shares of 1p each. As at the end of the financial year, 65,581,924 fully paid ordinary shares were in issue which included 340,015 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. The Directors are not aware of any agreements which limit the transfer of shares or curtail the voting rights attached to those shares. As at the date of this Report 65.6% of the authorised share capital was issued.

At the Annual General Meeting of the Company held on 7 November 2008, the Company was authorised to purchase up to 6,524,191 of its ordinary shares, representing 10% of the issued share capital of the Company at 30 June 2008. No shares were purchased under this authority during the financial year. A resolution will be put to Shareholders at the forthcoming Annual General Meeting to renew this authority for a further period of one year. Under the proposed authority shares purchased may be either cancelled or held in treasury.

The Directors require authority from Shareholders to allot unissued share capital to the Company and to disapply shareholders' statutory pre-emption rights. Such authorities were granted at the 2008 Annual General Meeting and resolutions to renew these authorities will be proposed at the 2009 Annual General Meeting.

Results and Dividends

The results for the year and financial position at 30 June 2009 are shown in the consolidated income statement on page 68 and balance sheet on page 69. The Directors recommend the payment of a final dividend of 6.10p per share which, if approved by Shareholders, will be paid on 11 December 2009 to Shareholders registered at 13 November 2009. An interim dividend of 3.00p per share was paid on 9 April 2009, making a total dividend for the year of 9.10p (2008: 8.25p). The total dividend payment is £5,965,000 (2008: £5,380,000).

Directors

The Constitution of the Board and of its Committees, together with biographical notes on the Directors, is shown on page 38. Details of Directors' attendance at Board and Committee meetings and a statement on Board Evaluation is set out in the Corporate Governance Report on pages 44 to 48.

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, Simon Evans and Malcolm Diamond 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 51 to 58. During the year no Director had a disclosable material interest in any contract or arrangement with the Company or any of its subsidiaries. Information in relation to the Directors' remuneration is disclosed in the Remuneration Report on pages 51 to 58.

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

Amendments to the Articles of Association must be approved by a general meeting of the Shareholders in accordance with current legislation.

The Directors are proposing to adopt new Articles of Association in order to update the Company's constitutional documents, primarily to take account of changes in English Law. Details of the resolution to adopt new Articles of Association are included in the Circular to Shareholders.

A copy of the proposed new Articles of Association will be available for inspection at the offices of DLA Piper UK LLP, 3 Noble Street, London, EC2V 7EE, during normal business hours from 16 September until the date of the Annual General Meeting on 6 November 2009. A copy will also be available for inspection at the Annual General Meeting.

Political and Charitable Contributions

Charitable donations made during the year amounted to £2,921 (2008: £2,040). No political donations were made during the year (2008: Nil).

Research and Development

The Group has a structured development programme with the aim of identifying and bringing to market new pharmaceutical products. Investment in development is seen as key to further strengthen the Group's competitive position. The expense on this activity for the year ended 30 June 2009 was £3,433,000 (2008: £2,408,000) and a further £785,000 less £267,000 amortisation (2008: £1,331,000 less £123,000 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 59 to 62.

Acquisitions

There have been no acquisitions during the year under review.

Directors' Report continued

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 2009, the Group had an average of 65 days (2008: 73 days) purchases outstanding in creditors. The Company had an average of nil days (2008: 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, supply and manufacturing agreements.

Substantial Shareholdings

In accordance with the Disclosure Rules and Transparency Rules of the Financial Services Authority, as at 21 August 2009 the Company had been notified of the following interests exceeding the 3% notification threshold:

	No. of Shares	% of Shares Held
Schroder Investment Management	13,521,778	20.62
Legal & General Investment Management	4,074,706	6.21
Rathbone Unit Trust Management	3,403,066	5.19
BlackRock Investment Management	3,117,067	4.75
Artemis Investment Management	2,516,913	3.84
Insight Investment	2,422,405	3.69
Threadneedle Investments	2,417,881	3.69
Standard Life Investments	2,060,318	3.14
Invesco Perpetual	2,031,616	3.10

As at 1 September 2009 the Company had not been notified of any further changes in holdings.

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.

Conflicts of Interest

At the 2008 Annual General Meeting the Shareholders approved a resolution to amend the current Articles of Association so as to enable the Directors to authorise any actual or potential conflict of interest which could arise.

There are safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict. Firstly, only Independent Directors (i.e. those who have no interest in the matter being considered) will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will also be able to impose limits or conditions when giving authorisation if they think this is appropriate.

During the year under review no actual or potential conflicts have arisen.

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 63.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 14 to 35. The principal risks that may affect the Group's future performance are set out on page 35.

As described in notes 20 and 21 of the Consolidated Financial Statements, the Group had total committed bank facilities of £52.5 million at 30 June 2009 including an unutilised overdraft facility of £10 million. The Group also had cash balances of £26.8 million. The overdraft facility is renewable on 31 August 2010. All other bank facilities are committed until at least December 2012.

Although the Group has been affected by the current economic conditions, trading has continued to be robust with strong improvements in profitability and cash flow being recorded. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

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.

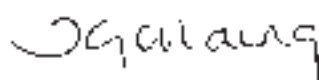
The contracts of employment or letters of appointment of the Directors and employees of the Company do not provide for compensation for loss of office that occurs because of a takeover.

Annual General Meeting

The 2009 Annual General Meeting of the Company will be held at 9.00 am on 6 November 2009. 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



Zoe Goulding

Company Secretary
1 September 2009

Corporate Governance

The Board recognises its accountability to Shareholders and is committed to maintaining high standards of corporate governance. In the opinion of the Directors, the Company has complied throughout the period under review with Section 1 of the 2008 FRC Combined Code on Corporate Governance (the Code) 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 also appoints 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 2009 was as follows:

Name	Board (11 meetings)	Audit (4 meetings)	Remuneration (3 meetings)	Nomination (2 meetings)
Michael Redmond	11	n/a	3	2
Malcolm Diamond	10	4	3	2
Neil Warner	10	4	3	2
Ian Page	11	n/a	n/a	n/a
Simon Evans	11	n/a	n/a	n/a
Ed Torr	11	n/a	n/a	n/a

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

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. The Chairman is responsible for the leadership and effective working of the Board and ensures that each Director, in particular the Non-Executive Directors, is able to make an effective contribution to the Board. The Chief Executive is responsible for the management of the Company, implementing policies and strategies determined by the Board.

The Chairman, at the time of his appointment, did meet and continues to meet the independence criteria set out in the Code. His appointment was rigorously reviewed by the Board last year and it 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 during the year under review each of the Non-Executive Directors remained independent and free from any relationships which could compromise their independent judgement.

Malcolm Diamond has served nine years as at August 2009 and, in line with the Code, the Nomination Committee has carried out a rigorous review of his appointment. Following such review the Board has determined that Malcolm Diamond remains independent notwithstanding that he has served on the Board for nine years. The Board considers that Malcolm Diamond still performs his duties effectively, continuing to show integrity and high ethical standards whilst maintaining sound, independent judgement in respect of all decisions taken at Board and Committee level.

The Nomination Committee does, however, recognise the need to ensure refreshment of the Board and has engaged a recruitment consultancy firm to assist in the process of appointing a further independent Non-Executive Director; it is hoped that a suitable candidate will be appointed by the end of the 2009 calendar year and an announcement to the London Stock Exchange will be made at this time.

Malcolm Diamond will continue in his role as Senior Independent Director; however, this role will be reviewed during the 2009/2010 financial year. As such, Malcolm Diamond will continue to be available to Shareholders if they have concerns which contact through the normal channels had failed to resolve or for which such contact is inappropriate.

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

The details of the Board of Directors are shown on page 38 and in the Directors' Report on pages 40 to 43.

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 Michael Redmond (Chairman), Malcolm Diamond, and Neil 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 2009.

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.

Corporate Governance continued

Information and Professional Development

The Directors are supplied in a timely manner with all relevant documentation and financial information to assist them in the discharge of their duties. This includes information on the Company's operational and financial performance. At least one Board meeting per year is held at one of the Group's operational sites to enable the Directors to update and maintain their knowledge and familiarity with the Group's operations; during the 2008/2009 financial year one Board meeting was held at *Dales* Pharmaceuticals in Skipton and one held in Denmark at DVP EU.

Any newly appointed Directors would 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.

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, 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 Simon Evans and Malcolm Diamond will retire by rotation in accordance with the Articles of Association and will seek re-election. The Board has reviewed their performance and strongly supports their re-election and recommends that the shareholders vote in favour of these resolutions.

Remuneration

Details of Directors' remuneration are set out in the Directors' Remuneration Report at pages 51 to 58. 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 Independent Auditors' Report on pages 63 and 66 to 67 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.

Every four months the Board prepares and updates a thorough review of relevant risk areas and systems of internal control. The review is structured by business area and key risk strategy and is based upon a summary of information prepared and reviewed by divisional management on an ongoing basis. This framework has been in place throughout the year under review, and has continued up to the date of approval of the Annual Report. The current review was prepared to 30 June 2009.

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 Board.

Development Expenditure

The Group has a transparent and established process for evaluating and monitoring the level of development expenditure incurred.

Management Structure

Executive management are responsible for the identification, evaluation and management of the significant internal and external risks applicable to their business areas. The top three business risks are reviewed at the monthly divisional board meeting with a full risk review taking place every four months.

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 pages 49 to 50. 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 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.

Audit Committee Report

Membership

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

Neil Warner (Chairman of the Committee)
Malcolm Diamond (Senior Independent Director)

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

The 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 46 and 47 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 pages 46 and 47, 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 four times during the year, timed to coincide with the financial and reporting timetable of the Company, namely July, August, February and May. Members' attendance at the meetings held during the year can be found on page 44.

At the meeting in July 2008 the Committee considered, and agreed with the external auditors, the approach and overall scope of the audit to be commenced in respect of the 2008 year end. The Committee also carried out a formal review of its own effectiveness led by the Committee Chairman.

A further Committee meeting was then held in August 2008 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, the external auditors' report on the full-year audit, a review of internal controls, auditor effectiveness and the requirement for an internal audit function. The Committee also reviewed the steps taken to ensure that all relevant audit information had been disclosed to the auditors thereby enabling the Directors to make the statement contained within the Directors' Report on page 42.

At the meeting in February, the Committee considered in detail the half year results and draft half year announcement. In addition, the Committee considered the non-audit fee policy and updated the terms of reference.

Audit Committee Report continued

At the meeting in May the Committee focused on the audit strategy for the audit commenced in respect of the 2009 year end; this included a detailed consideration of the FRC Guidance "Challenges for Audit Committees arising from current economic conditions". The Committee also discussed and approved the audit expectations, timetable and fee.

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

Auditor Independence

With respect to non-audit assignments undertaken by the external auditors, the Company has 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.

As mentioned above, the policy in respect of non-audit fees was reviewed and amended during the year. Non-audit fees are now capped to 50% of the relevant year's audit fee and the Chief Executive and Group Finance Director have authority to commission the external auditors to undertake non-audit work to this level. 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 agreed levels then the prior approval of the Committee is required before the work is commissioned and a detailed explanation of the reasons for exceeding the limit provided in the annual Audit Committee Report. In all cases, other potential providers are adequately considered.

In respect of the year under review the audit fee has been approved at £266,000 and non-audit fees amount to £96,773, representing 36% of the audit fee. During the current year, the external auditors have been commissioned to carry out a number of non-audit projects including tax advisory and compliance work, verification of satisfaction of the performance conditions attaching to the Approved and Unapproved Company Share Option Schemes and assistance in respect of the closure of an offshore Employee Benefit Trust.

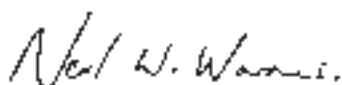
The external auditors annually confirm their policies on ensuring audit independence and provide the Committee with a report on their own audit quality procedures. Professional rules require rotation of the Group Audit Engagement Director every five years and this took place during the 2005/2006 financial year.

Effectiveness Review

During the year, the Committee reviewed its own effectiveness through a process led by the Committee Chairman. The Committee considered it had the skills to perform its responsibilities, particularly through Neil Warner's financial and audit experience by reason of his position as Financial Director of Chloride PLC. The results of the review were advised to the Committee and the Board.

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.

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 Warner

Chairman — Audit Committee

1 September 2009

Directors' Remuneration Report

The Report is presented in accordance with the relevant provisions of the Combined Code on Corporate Governance (the Combined Code) and the Directors' Remuneration Report Regulations 2002 (the Regulations). The Report is divided into two sections, unaudited and audited information, in accordance with the Regulations. The audited information commences on page 56.

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 2009 Annual General Meeting for the approval of the Shareholders.

The Remuneration Committee

Membership

The Committee consists exclusively of independent Non-Executive Directors and comprises Malcolm Diamond, Michael Redmond and Neil Warner, all of whom have served on the Committee throughout the 2008/2009 financial year. The Committee is chaired by Malcolm Diamond and met three 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 44.

Advisers

During the year the Committee received advice on the remuneration of Senior Executives from the Chief Executive. Advice was also received from the Company Secretary and Hewitt New Bridge Street in relation to the operation of the Company's share-based incentive plans. Hewitt New Bridge Street are appointed by the Committee to provide advice on Executive remuneration and long-term incentive arrangements. Hewitt New Bridge Street has no other connection with the Company.

Responsibilities

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

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

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

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

Executive Directors

Remuneration Policy

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

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

Directors' Remuneration Report continued

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. The last review was sought in 2008 and details were provided in last year's Report and Accounts. Existing remuneration arrangements comprised:

- Salary: Ian Page — £350,000, Simon Evans — £220,000, Ed Torr — £210,000
- Pension worth 14% of salary
- Sundry benefits in kind, including fully expensed car and private medical insurance
- Annual Bonus worth up to 100% of salary based on profit targets and personal objectives
- Annual share awards under the Long Term Incentive Plan ("LTIP") worth up to 100% of salary based on Total Shareholder Return ("TSR") relative to other FTSE Small Cap companies (assuming that an "underpin" condition based on the Company's adjusted diluted earnings per share performance has been satisfied)

Base Salary

When setting the Executive Directors' remuneration packages the Committee always considers (i) remuneration packages payable to employees employed in comparable companies and (ii) pay increases within the Group more generally.

Taking into account the current economic climate and the pay increases across the Group, the Committee has agreed that base salaries should be increased by 2% with effect from 1 July 2009 to:

Ian Page — £357,000, Simon Evans — £224,400 and Ed Torr — £214,200.

This equates to a 2% pay increase and is aligned with the pay policy adopted throughout the Group for the 2009/2010 financial year.

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 a life assurance scheme.

Annual Bonus

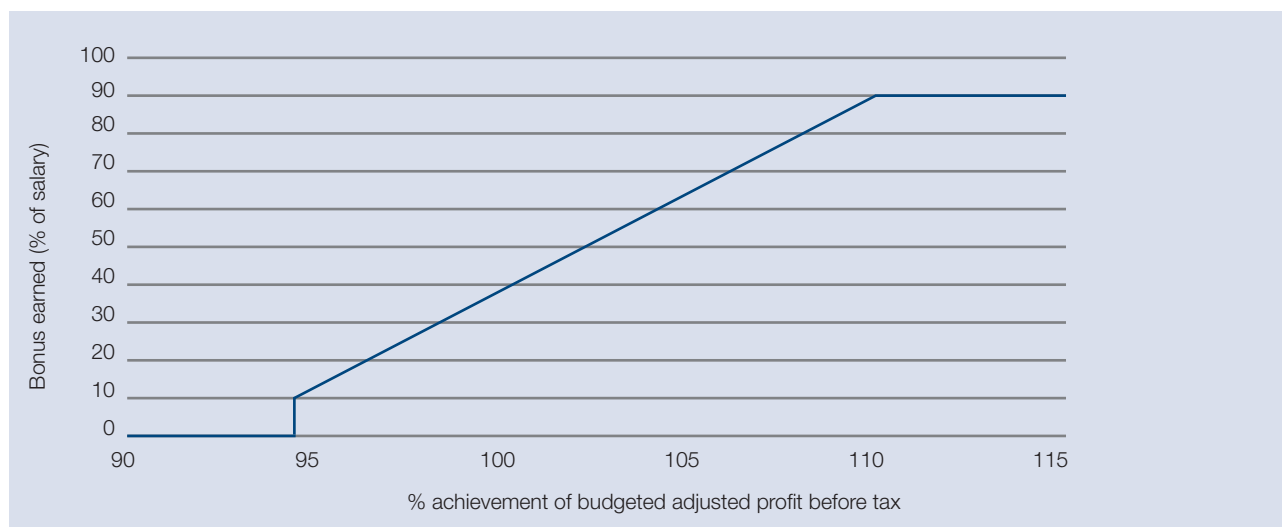
The Company operates annual incentive arrangements for certain employees, including Executive Directors.

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.

For the year under review, the financial measure applicable to the Executive Bonus Scheme was the achievement of budgeted adjusted profit before tax with on target achievement of budget providing a bonus equivalent to 36% of base salary. A maximum bonus of 90% of base salary is payable on the achievement of 110% of budget for the year with a further 10% of base salary being payable on the achievement of personal objectives. The maximum award available to all Executive Directors for the 2008/2009 financial year is therefore 100% of base salary. Actual performance equated to a bonus of 82% of base salary (including the achievement of personal objectives) resulting in a total payment to Executive Directors of £639,600.

Executive bonuses for the year ended 30 June 2010 are to be calculated in line with the previous year's bonus scheme:

- Annual cash bonus potential up to 100% of salary.
- 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 can be earned based on the achievement of Group budget set at the beginning of the financial year (with payments as outlined in the chart on the following page).



Long-Term Incentive Plan

A new Long Term Incentive Plan (“LTIP”) was approved by Shareholders at the 2008 Annual General Meeting. The Remuneration Committee considers that the LTIP provides a clear link between the remuneration of the Executive Directors and the creation of value for Shareholders by rewarding the Executive Directors for the Company’s performance in terms of relative Total Shareholder Return (“TSR”).

The LTIP allows the Executive Directors and selected Senior Executives of the Company to receive a conditional award of performance shares worth up to 150% of base salary (200% of salary in exceptional circumstances). Options granted to the Executive Directors on 19 November 2008 were granted to a value equivalent to 100% of their base salary.

Vesting of performance shares will normally occur provided that:

- (a) the participant is still employed by the Group at the end of the three year vesting period; and
- (b) to the extent that the pre-set performance targets have been satisfied over the three year performance period which will run from the start of the financial year within which the award is granted. Performance targets for the grant during the financial year ending 30 June 2009 are:
 - (1) An ‘underpin’ condition based on the Company’s adjusted diluted earnings per share performance — no awards will vest if the Company’s adjusted diluted earnings per share has not grown by at least RPI + 3% per annum over the performance period.
 - (2) The Company’s TSR performance — assuming that the underpin is achieved, vesting of the awards will be determined by the Company’s TSR performance compared to the constituents of the FTSE Small Cap sector at the start of the performance period. The TSR will be calculated by comparing average performance over three months prior to the start and end of the performance period. Vesting will be on the following basis:

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

Executive Incentive Plan (“EIP”)

Prior to the adoption of the LTIP in November 2008, the Company operated an Executive Incentive Plan. No further options can be granted under the EIP; however, a number of prior year grants have yet to be exercised (subject to the achievement of performance conditions and confirmation from the Remuneration Committee that the underlying financial performance of the Company has been satisfactory during the relevant measurement period). Details of the options yet to be exercised pursuant to the EIP and the attaching performance conditions can be found on page 57 of this report.

Directors' Remuneration Report continued

Company Share Option Scheme and Savings Related Share Option Scheme

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

Share Ownership Guideline

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

Contracts of Services

During the year under review each of the Executive Directors entered into a new rolling service contract. The service contracts contain details regarding remuneration, restrictions and disciplinary matters.

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

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

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

The Company may, in its absolute discretion at any time after written notice has been given by either party, lawfully terminate the service contract by paying to the Director an amount equal to his basic salary entitlement for the unexpired period of notice (subject to a deduction at source of income tax and National Insurance contributions).

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

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

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

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

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

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

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

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

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. Taking into account the current economic climate and the pay increases across the Group, the Non-Executive Directors have waived an increase in their fees for the 2009/2010 financial year. The annual fee level for 2009/10 therefore remains at the level paid for 2008/2009:

	Fee £'000
Office	
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' Shareholdings

The beneficial interests of the Directors in office and their families in the share capital of Dechra Pharmaceuticals PLC as at 30 June 2009 were as follows:

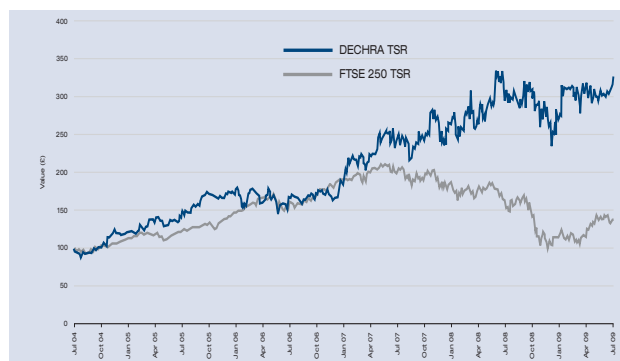
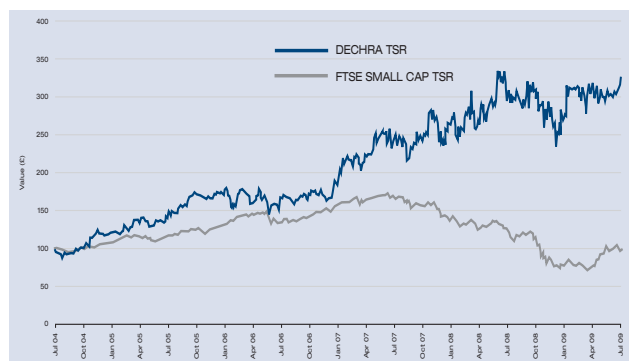
Shareholdings	Ordinary Shares 2009	Ordinary Shares 2008
Michael Redmond	56,475	41,475
Ian Page	679,856	759,332
Simon Evans	830,274	806,370
Ed Torr	390,783	426,796
Malcolm Diamond	10,007	6,100
Neil Warner	2,691	2,691

There have been no changes in the holdings of the Directors between 30 June and 1 September 2009.

Directors' Remuneration Report continued

Total Shareholder Return

The graphs below show the Total Shareholder Return performance of the Company over the past five financial years compared with the Total Shareholder Return over the same period for the FTSE Small Cap Total Return Index and FTSE 250 Index. During the 2008/2009 financial year the Company moved from the FTSE Small Cap Index to become a constituent member of the FTSE 250; for this reason it is considered that the Total Shareholder Return performance of both sectors be represented in this report.



Effectiveness Review

During the year, the Committee reviewed its effectiveness through a process led by the Committee Chairman. The Committee considered it had the skills and experience necessary to perform its responsibilities. These 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 2009 £'000	Total 2008 £'000
Executive Directors					
Ian Page (Chief Executive)	350	287	28	665	549
Simon Evans	220	181	24	425	327
Ed Torr	210	172	15	397	293
Non-Executive Directors					
Michael Redmond (Chairman)	80	—	—	80	60
Malcolm Diamond	39	—	—	39	31
Neil Warner	39	—	—	39	29
	938	640	67	1,645	1,289

Executive bonuses for the year ended 30 June 2009 (as reflected in the table above) were determined as follows:

- Profit performance — 10% of salary payable upon the achievement of 95% of Group profit target rising to 90% of salary payable upon the achievement of 110% of Group profit target. Actual performance reflected 107% of the profit target resulting in a payment worth 74% 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 8% of salary.

Executive Incentive Plan

Awards made under the Executive Incentive Plan are as follows:

	Award date	Number of shares at 30 June 2008	Granted during the year	Exercised during the year	Number of shares at 30 June 2009	Performance period	Share Price at date of award pence	Share Price at date of exercise pence
Ian Page	2005	34,861	—	(34,861)	—	2005–2008	251	400
	2006	47,412	—	—	47,412	2006–2009	250.75	—
	2008	37,975	—	—	37,975	2007–2010	386	—
		120,248	—	(34,861)	85,387			
Simon Evans	2005	23,904	—	(23,904)	—	2005–2008	251	400
	2006	30,263	—	—	30,263	2006–2009	250.75	—
	2008	22,152	—	—	22,152	2007–2010	386	—
		76,319	—	(23,904)	52,415			
Ed Torr	2005	22,908	—	(22,908)	—	2005–2008	251	400
	2006	28,245	—	—	28,245	2006–2009	250.75	—
	2008	20,253	—	—	20,253	2007–2010	386	—
		71,406	—	(22,908)	48,498			

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

During the financial year awards granted in 2005 became exercisable. Independent verification by Hewitt New Bridge Street showed that the Company's TSR performance for the three year period to 30 June 2008 was in the top quartile of the FTSE Small Cap Total Return Index. The Committee also determined that the underlying financial performance of the Company over the performance period had been satisfactory. The full award was therefore exercisable.

Independent verification has also recently been sought from Hewitt New Bridge Street in respect of the satisfaction of the performance targets for awards which vested as at 30 June 2009. It has been confirmed to the Committee that the Company's TSR performance for the three year period to 30 June 2009 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 1 September 2009.

Directors' Remuneration Report continued

Long Term Incentive Plan

The Long Term Incentive Plan was approved by Shareholders at the 2008 Annual General Meeting. The following awards were made on 19 November 2008:

	Award date	Granted during the year	Exercised during the year	Number of shares at 30 June 2009	Performance period	Share price at date of award
Ian Page	2009	92,593	—	92,593	2008–2011	391.75
Simon Evans	2009	58,201	—	58,201	2008–2011	391.75
Ed Torr	2009	55,556	—	55,556	2008–2011	391.75

The performance conditions attaching to the Long Term Incentive Plan are explained on page 53.

The aggregate gain made by the Executive Directors on share options exercised during 2009 was £330,979. The aggregate gain made by the Executive Directors on share options exercised during 2008 was £589,000.

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 2008 number	Exercised number	Granted number	Lapsed number	At 30 June 2009 number
Ian Page	13 October 2008	387	343	Dec 2013	—	—	4,883	—	4,883
Simon Evans	13 October 2008	387	343	Dec 2013	—	—	4,883	—	4,883
Ed Torr	18 October 2005	255	204	Dec 2008	2,750	(2,750)	—	—	—
	13 October 2008	387	343	Dec 2011	—	—	1,119	—	1,119
					2,750	(2,750)	10,885	—	10,885

Share Price

The middle market price for the Company's shares on 30 June 2009 was 422.25p and the range of prices during the year was 315.5p to 442.75p.

Pension Entitlement

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

	Age	Contributions 2009 £000	Contributions 2008 £000
Ian Page	48	49	42
Simon Evans	45	31	25
Ed Torr	49	29	22
		109	89

By order of the Board



Malcolm Diamond

Chairman — Remuneration Committee

1 September 2009

Social, Ethical and Environmental Responsibilities

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

The Board takes ultimate responsibility for Corporate Social Responsibility ("CSR") and continues to be committed to developing and implementing appropriate policies to create and maintain long-term value for Shareholders. Sound business ethics help to minimise risk, ensure legal compliance and enhance Company efficiency. The 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 Company is in the process of establishing an Environmental Committee (the "Committee") which will be chaired by Ed Torr (the nominated Director responsible for environmental policy). A representative has been chosen from each of the business units to sit on the Committee and it is intended that they will meet four times a year. Terms of Reference are currently being drafted and it is envisaged that the Committee's remit will centre on two main areas: (1) the implementation of environmental policies at local business level; and (2) assisting the Board in its commitment to Corporate Social Responsibility. The activities of the Committee will be reported on in future Reports and Accounts.

The Group is a registered member of a compliance scheme in respect of the Waste Packaging Obligations Regulations.

In addition, National Veterinary Services operates a recycling programme which ensures that all trunking depots (see page 27) return their general waste to the main depot at Stoke-on-Trent. The general waste is then sorted for collection by third party waste management companies. During the 2008/2009 financial year approximately 288 tonnes of cardboard were recycled, as were 27 tonnes of plastic, 14 tonnes of paper and 2.4 tonnes of aluminium cans.

Dales Pharmaceuticals also actively monitors its recycling rates and during the 2008/2009 financial year recycled approximately 13 tonnes of glass, 42 tonnes of cardboard and 7 tonnes of plastic.

Dales Pharmaceuticals also continues to comply with, and exceed, effluent discharge standards into local water supplies, which is regularly monitored by Yorkshire Water Authority. Standard

operating procedures are in place to ensure that all contaminated waste is disposed of under strict controls. Furthermore, all exhaust air is fully filtered from the manufacturing unit before discharge.

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

- Annual energy consumption: In 2008 energy consumption totalled 1,471 MWh (compared to 1,420 MWh in 2007). The increase is primarily due to an increase in staff numbers which has entailed use of extra office space which required lighting and heating.
- Water: In 2008 water usage totalled 2,584 m³ in 2008 (compared to 2,530 m³ in 2007). Although there has been a slight increase in usage compared to the previous year, over a five year period the usage has remained relatively stable.
- Waste: During 2008 a total of 11.1 tonnes of plastic and metal was recycled (compared to 17.3 tonnes during 2007) and 13.7 tonnes of paper and cardboard recycled (compared to 11.8 tonnes in 2007).

During 2008/2009 Dales Pharmaceuticals has implemented and embedded the lean manufacturing strategy into its operations, thereby assisting the business in achieving a decrease in the time between placement of the customer order and end product shipment. This has involved a high level of employee training and to date approximately 120 Dales Pharmaceuticals employees have achieved NVQ level 2 for Business Improvement Techniques. Management time spent in respect of training is intense and it takes nine months to train each individual to achieve the NVQ qualification. Approximately 40 hours over a six week period of the training is carried out within a classroom environment covering the theory whilst the rest of the time is spent on project work. Currently 16 projects have been completed and presented by the trained employees, with all 16 projects delivering further business improvements. Dales Pharmaceuticals will continue to deliver the lean manufacturing process during the 2009/2010 financial year and thereafter until all employees have been trained.

The implementation of the lean manufacturing strategy into the business has provided concrete results to date; specifically the time taken for a product to travel through the manufacturing cycle (known as the Process Time) has reduced from an average of 55 days to 32 days. Further, stock moving through the manufacturing/packing process (known as Work in Progress) has also reduced corresponding with an increase in sales.

Dales Pharmaceuticals is continuing to work towards achievement of its ISO 140001 status; the gap analysis which was carried out at the end of the 2007/2008 financial year highlighted a number of embedded procedures within Dales Pharmaceuticals which would assist in achieving the standard. The analysis also highlighted a number of procedures requiring implementation and these are now in the process of being drafted. Dales Pharmaceuticals hopes that the ISO 140001 standard will be achieved during the next financial year and continues to work towards this.

Social, Ethical and Environmental Responsibilities continued

National Veterinary Services fleet policy ensures that CO₂ emissions are taken into consideration when procuring new delivery vehicles in order to ensure that low emission vehicles are sourced. Generally, delivery vehicles are replaced every three years via leasing agreements and alternative fuel vehicles are always considered on the replacement anniversary; in the past year LPG and electric vehicles have been considered. During 2008/2009 National Veterinary Services procured a number of new delivery vehicles which have been fitted with speed limiters which will assist in reducing the amount of fuel consumed by the fleet and should also assist in reducing carbon emissions. The average miles per gallon in respect of the HGV fleet as at the end of June 2009 was 9.74 compared with 8.86 for the end of June 2008. In respect of the Transit fleet, average miles per gallon at the end of June 2009 was 32.46 compared with 31.82 for the end of June 2008.

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



Picture courtesy of Staffordshire Wildlife Trust

The Boardwalk at Jackson's Coppice and Marsh, Eccleshall



Picture courtesy of Staffordshire Wildlife Trust

The new visitor centre at Westport Lake, near Tunstall

Social Responsibilities

Dechra Pharmaceuticals PLC has maintained its investment in the Corporate Membership Scheme for the Staffordshire Wildlife Trust (the Trust) throughout the financial year.

The continued support provided by the Company has assisted the Trust in a number of environmental and local community programmes:

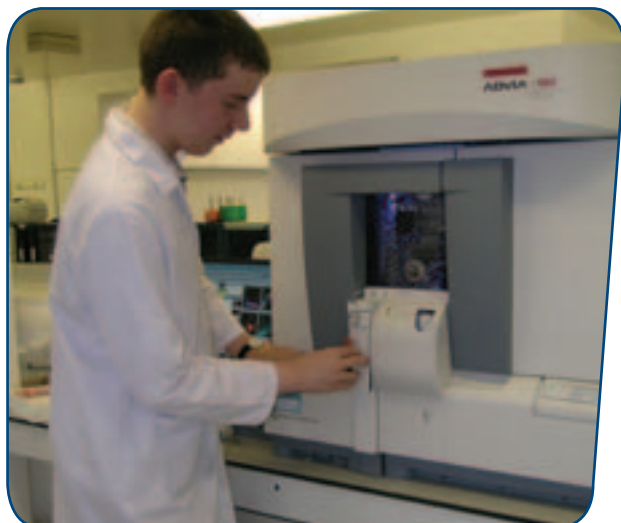
- A new car park has been built and improvements made to the Boardwalk at Jackson's Coppice and Marsh, Eccleshall (20 acres of semi-natural ancient woodland and marsh in Staffordshire). The Trust hopes these improvements will allow greater visitor access to the nature reserve.
- Work has also taken place to improve the visitor centre experience at The Wolseley Centre (the Trust Headquarters) near Rugeley.
- Three new Wildplay Officers have been appointed to the Trust. The new officers will assist in delivering environmental activities to under 15s in the East Staffordshire and Tamworth areas by providing residential and training courses.
- A new visitor centre has also been opened at Westport Lake, near Tunstall, Stoke-on-Trent enabling the Trust to increase the number of educational opportunities it can offer to people in the local area.

The business units assist a number of local community projects and below is a selection of what has taken place during the 2008/2009 financial year:

NationWide Laboratories has, for a number of years, forged links with local schools by offering a number of work experience placements to students. One of the schools with which NationWide Laboratories has close links is Arnold School in Blackpool which teaches children between the ages of 2 and 18 years of age. Arnold School has placed students with NationWide Laboratories for the past three years. The placements usually take place twice a year and last for a week at a time. NationWide Laboratories feels that by offering such placements to pupils it provides the opportunity for students to understand and appreciate working life whilst allowing the schools to strengthen ties with local businesses.

“The students always find the work experience interesting and rewarding and NationWide Laboratories are always well prepared to look after the students”

Lee Sobey — Work Experience Co-ordinator at Arnold School



Robert Brocklehurst, work experience placement student from Arnold School, Blackpool

In 2008 Lise Seiersen, a Veterinary Nurse from Harrogate, travelled to Botswana as part of a team organised by Worldwide Veterinary Services to spend three weeks neutering dogs for the Maun Animal Welfare Society (MAWS). MAWS is a charity in Botswana which offers free neutering and treatment of dogs and cats belonging to people who could not otherwise afford to treat their animals. National Veterinary Services donated consumables for Lise's trip from their Valu Range, which included gloves, giving sets and drapes.



Photograph courtesy of Lise Seiersen

“MAWS depends entirely on donations to continue their work so NVS’ kind donation of gloves and giving sets were much appreciated and put to immediate use when we started work at MAWS’ clinic”

Lise Seiersen — Veterinary Nurse

National Veterinary Services also distributes, free of charge, damaged dog and cat food to charities each year. During the financial year approximately 40 tonnes of dog and cat food has been supplied to charities free of charge. A number of local dog and cat charities are identified by National Veterinary Services and these are generally charities involved directly with the care of animals; it is ensured that such stock is not provided to charities where the damaged product would be sold on to third parties.

DVP UK is a sponsor of a charity called “Help the Street Cats of Morocco” (HSAM) which it has been involved with since 2006. During the 2008/2009 financial year DVP UK provided products necessary to assist in the neutering of 120 Moroccan street cats as part of a larger animal welfare programme led by HSAM. HSAM is a UK-based charity which aims to improve the welfare of street animals in Morocco and also to reduce the feral population. DVP UK regularly provides the charity with donations of products, predominately from its anaesthetic range.

During 2008/2009 DVP UK has also donated £2,000 worth of Canaural to Battersea Dogs & Cats Home and Dogs Trust.

Each year DVP EU nominates a Danish charity to which they donate DKK 3,000. For the year under review DVP EU chose to donate the money to the Danish Breast Cancer Foundation.

DVP EU also provides support, in the form of obsolete and short dated products, to a number of animal protection funds. In particular, such support is provided to:

- The Animal Protection Fund (Inge's Cat Home) which provides shelter and care to homeless cats;
- Cat Protection, Denmark's oldest and largest specialised organisation for cat welfare; and
- Greeks Dogs, a Danish charity which specialises in assisting stray cats and dogs in Europe.

Finally, for a number of years DVP EU has sponsored three children through an organisation called SOS Childrens Villages. The three children sponsored live in Kenya, India and the Philippines. DVP EU donates DKK150 a month to the charity for the sole purpose of providing care, food and schooling for the three children.

Business Ethics

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

Social, Ethical and Environmental Responsibilities continued

During the 2008/2009 financial year the Board's expectations in respect of business conduct has been formalised into a policy known as The Code of Business Conduct (the Code). The Code aims to set a standard of conduct which applies throughout the Group and ensures, amongst other things, that:

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

This Code is in the process of being rolled out through the business. In future years written confirmation of adherence to the Code and notification of any conflicts, by all relevant employees, will take place annually.

A Whistle-Blowing Policy is also in place whereby employees may report, in confidence, any suspected wrongdoings within the business where they feel unable to discuss any such issue directly with local management. The policy was reviewed during the year by the Audit Committee and extended to include all employees within DVP EU.

Details of the policy are contained within the Dechra Pharmaceuticals PLC Employment Handbook which was updated during the 2008/2009 financial year (further details of which can be found below under "Employees"). A copy of the policy can also be found on the Company website at www.dechra.com.

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

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.

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

As mentioned in the 2008 Report and Accounts, a transport risk review committee has been established to assess risks relating 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 reviewed by the Board as part of a health and safety review which takes place twice a year.

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

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. As mentioned on page 59, approximately 120 employees have achieved NVQ Level 2 for Business Improvement Techniques as part of the implementation of the lean manufacturing strategy into *Dales Pharmaceuticals*.

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.

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

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

Directors' Responsibility Statement Required under the Disclosure and Transparency Rules

We confirm to the best of our knowledge:

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

Approved by the Board and signed on its behalf by:



Ian Page

Chief Executive Officer
1 September 2009



Simon Evans

Group Finance Director
1 September 2009



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Independent Auditors' Report

We have audited the financial statements of Dechra Pharmaceuticals PLC for the year ended 30 June 2009 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, the Parent Company Reconciliation of Movements in Shareholders' Funds and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with sections 495, 496 and 497 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 63, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2009 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditors' Report continued

Matters on which we are Required to Report by Exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 43, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.



SJ Purkess (Senior Statutory Auditor)

For and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

2 Cornwall Street

Birmingham

B3 2DL

1 September 2009

Consolidated Income Statement

For the year ended 30 June 2009

	Note	2009 Adjusted £'000	Amortisation of acquired intangibles and exceptional items (note 5) £'000	Total £'000	2008 Adjusted £'000	Amortisation of acquired intangibles and exceptional items (note 5) £'000	Total £'000
Revenue	2	349,964	—	349,964	304,371	—	304,371
Cost of sales		(276,292)	—	(276,292)	(250,771)	—	(250,771)
Gross profit		73,672	—	73,672	53,600	—	53,600
Distribution costs		(15,981)	—	(15,981)	(13,360)	—	(13,360)
Administrative expenses		(32,720)	(7,303)	(40,023)	(21,098)	(5,071)	(26,169)
Operating profit	2	24,971	(7,303)	17,668	19,142	(5,071)	14,071
Finance income	3	3,211	—	3,211	1,973	—	1,973
Finance expense	4	(4,776)	—	(4,776)	(4,262)	(77)	(4,339)
Profit before taxation	6	23,406	(7,303)	16,103	16,853	(5,148)	11,705
Income tax expense	8	(6,647)	1,847	(4,800)	(4,668)	1,281	(3,387)
Profit for the year attributable to equity holders of the parent		16,759	(5,456)	11,303	12,185	(3,867)	8,318
Earnings per share							
Basic	10			17.27p			14.20p
Diluted	10			17.13p			14.09p
Dividend per share (interim paid and final proposed for the year)	9			9.10p			8.25p

Consolidated Balance Sheet

At 30 June 2009

	Note	2009 £'000	2008 £'000
ASSETS			
Non-current assets			
Intangible assets	11	89,565	90,375
Property, plant and equipment	12	8,040	8,224
Deferred tax assets	14	—	1,053
Total non-current assets		97,605	99,652
Current assets			
Inventories	15	31,534	32,435
Trade and other receivables	16	47,717	47,445
Cash and cash equivalents	17	26,817	22,219
Total current assets		106,068	102,099
Total assets		203,673	201,751
LIABILITIES			
Current liabilities			
Borrowings	20	(19,263)	(21,218)
Trade and other payables	18	(61,703)	(62,596)
Current tax liabilities	19	(4,756)	(2,824)
Total current liabilities		(85,722)	(86,638)
Non-current liabilities			
Borrowings	20	(23,081)	(27,998)
Deferred tax liabilities	14	(14,184)	(15,316)
Total non-current liabilities		(37,265)	(43,314)
Total liabilities		(122,987)	(129,952)
Net assets		80,686	71,799
EQUITY			
Issued share capital	22	656	652
Share premium account		62,437	62,166
Hedging reserve		(703)	281
Foreign currency translation reserve		4,686	1,608
Merger reserve		1,770	1,770
Retained earnings		11,840	5,322
Total equity attributable to equity holders of the parent		80,686	71,799

The financial statements were approved by the Board of Directors on 1 September 2009 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 2009

Year ended 30 June 2008	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 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	—	—	—	2,415	—	—	2,415
Net loss on hedge of net investment in foreign operations	—	—	—	(807)	—	—	(807)
Total recognised income and expense for the period	—	—	352	1,608	—	8,318	10,278
Dividends paid	—	—	—	—	—	(4,420)	(4,420)
Share-based payments	—	—	—	—	—	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
Year ended 30 June 2009							
At 1 July 2008	652	62,166	281	1,608	1,770	5,322	71,799
Profit for the period	—	—	—	—	—	11,303	11,303
Fair value losses on derivative financial instruments	—	—	(1,024)	—	—	—	(1,024)
Exchange differences on translation of foreign operations	—	—	—	4,866	—	—	4,866
Net loss on hedge of net investment in foreign operations	—	—	—	(1,532)	—	—	(1,532)
Recycled to intangible assets	—	—	40	—	—	—	40
Recycled to income statement	—	—	—	(256)	—	—	(256)
Total recognised income and expense for the period	—	—	(984)	3,078	—	11,303	13,397
Dividends paid	—	—	—	—	—	(5,565)	(5,565)
Share-based payments	—	—	—	—	—	780	780
Shares issued	4	271	—	—	—	—	275
At 30 June 2009	656	62,437	(703)	4,686	1,770	11,840	80,686

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 and exchange gains or losses on the translation of liabilities that hedge the Company's net investment in foreign subsidiaries.

Merger Reserve

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2009

	Note	2009 £'000	2008 £'000
Cash flows from operating activities			
Profit for the period		11,303	8,318
Adjustments for:			
Depreciation		1,477	1,291
Amortisation		7,427	3,230
(Gain)/loss on sale of property, plant and equipment		(33)	15
Finance income		(3,211)	(1,973)
Finance expense		4,776	4,339
Equity-settled share-based payment expense		643	603
Income tax expense		4,800	3,387
Operating cash flow before changes in working capital		27,182	19,210
Decrease/(increase) in inventories		1,340	(3,912)
Increase in trade and other receivables		(593)	(3,070)
(Decrease)/increase in trade and other payables		(372)	3,825
Cash generated from operations		27,557	16,053
Interest paid		(3,996)	(4,450)
Income taxes paid		(3,227)	(3,041)
Net cash from operating activities		20,334	8,562
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		42	5
Interest received		2,145	1,648
Acquisition of subsidiaries	27	—	(65,151)
Purchase of property, plant and equipment		(881)	(694)
Capitalised development expenditure		(785)	(1,331)
Purchase of other intangible non-current assets		(2,010)	(92)
Net cash from investing activities		(1,489)	(65,615)
Cash flows from financing activities			
Proceeds from the issue of share capital		288	35,747
Share issue expenses		—	(1,511)
New borrowings		—	50,200
Expenses of raising new borrowings		—	(751)
Repayment of borrowings		(5,658)	(17,185)
Repayment of foreign currency borrowings		(3,473)	—
Dividends paid		(5,565)	(4,420)
Net cash from financing activities		(14,408)	62,080
Net increase in cash and cash equivalents			
Cash and cash equivalents at start of period		22,219	17,222
Exchange differences on cash and cash equivalents		161	(30)
Cash and cash equivalents at end of period		26,817	22,219

Our Business

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Consolidated Statement of Cash Flows continued

For the year ended 30 June 2009

Reconciliation of net cash flow to movement in net borrowings

	Note	2009 £'000	2008 £'000
Net increase in cash and cash equivalents		4,437	5,027
Repayment of borrowings		5,658	17,185
New borrowings		—	(50,200)
New finance leases		(248)	(319)
Exchange differences on cash and cash equivalents		161	(30)
Retranslation of foreign borrowings		1,821	(616)
Other non-cash changes		(359)	929
Movement in net borrowings in the period		11,470	(28,024)
Net borrowings at start of period		(26,997)	1,027
Net borrowings at end of period	24	(15,527)	(26,997)

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 2009 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 112 to 119.

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 29.

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 3, Business Combinations (revised 2008) incorporates the following changes that are likely to be relevant to the Company's operations:
 - contingent consideration will be measured at fair value, with subsequent changes recognised in profit or loss;
 - transaction costs, other than share and debt issue costs, will be expensed as incurred;
 - pre-existing interests in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss; and
 - any non-controlling (minority) interest will be measured at either fair value or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

IFRS 3 will become mandatory for the Company's 2010 accounts and will be applied prospectively from 1 July 2009. The significance or otherwise of the impact of these changes to the Company will depend on the circumstances of any future acquisition.

- IFRS 8, Operating Segments requires the identification and disclosure of segments based on the internal reporting to the Chief Operating Decision Maker. This Standard will be adopted by the Company for its 2010 report and accounts.
- IFRS 7, Financial Instruments: Disclosure (2008 amendments) requires enhanced disclosures about fair value measurements and liquidity risks.
- IFRS 2, Share-based Payments (revised 2008) clarifies the definition of vesting conditions and will become mandatory for the Company in its report and accounts for 2010. It is not expected to have a significant impact on the Company's results.

Notes to the Consolidated Financial Statements continued

1. Accounting Policies continued

- IAS 1, Presentation of Financial Statements (revised 2007/2008) revises the presentation of non-owner changes and introduces a statement of comprehensive income.
- IAS 23, Borrowing Costs (revised 2008) requires the capitalisation of borrowing costs that relate to assets that take a significant period of time to prepare for use. The revised requirement will be adopted by the Group in its report and accounts for 2010. No significant impact on the net results of the Group is anticipated.
- IAS 27, Consolidated and Separate Financial Statements (revised 2008) requires changes in the level of ownership of a subsidiary, while maintaining control to be recognised in equity. The amendment is effective for accounting periods beginning on or after 1 July 2009. No significant impact to the Group's net results or net assets is likely to occur.
- IAS 32, Financial Instruments: Presentation (revised 2008) — Puttable Financial Instruments and Obligations arising on Liquidation. This is applicable to periods beginning on or after 1 January 2009. No impact will arise on the Group's net result from its adoption.
- IAS 39, Financial Instruments: Recognition and Measurement (revised 2008) — recognition and measurement of eligible hedged items. This is applicable to periods beginning on or after 1 July 2009. No impact is likely to arise on the Group's net result from its adoption.

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

- IFRIC 13, Customer Loyalty Programmes.
- IFRIC 15, Agreements for the Construction of Real Estate.
- IFRIC 16, Hedge of a Net Investment in a Foreign Operation.
- IFRIC 17, Distribution of Non-Cash Assets to Owners.
- IFRIC 18, Transfers of Assets from Customers.

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.

(c) Basis of Consolidation

(i) Subsidiaries

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

(ii) Transactions Eliminated on Consolidation

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

(d) Business Combinations

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

(e) Foreign Currency Translation

(i) Functional Currency

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

1. Accounting Policies continued

(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 Group presentation currency are translated into Sterling as follows:

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

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

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

There are no Group entities operating in a hyperinflationary economy.

(f) Financial Assets and Liabilities

Financial Assets

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

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

Held for Trading Financial Assets

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

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

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

Notes to the Consolidated Financial Statements continued

1. Accounting Policies continued

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognised on these instruments are not reversed through the income statement if the fair value of the instrument increases in a later period.

Derivative Financial Instruments

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

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

Hedging

Cash Flow Hedges

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

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

Hedges of Net Investment in Foreign Operations

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

1. Accounting Policies continued

(g) Property, Plant and Equipment

(i) Owned Assets

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

(ii) Leased Assets

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

(iii) Depreciation

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

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

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

(h) Intangible Assets

(i) Goodwill

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

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

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

(ii) Research and Development Costs

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

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

Notes to the Consolidated Financial Statements continued

1. Accounting Policies continued

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

(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.

1. Accounting Policies continued

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

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

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

An impairment loss in respect of goodwill is not reversed.

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

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

(l) Dividends

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

(m) Employee Benefits

(i) Pensions

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

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

(ii) Share-based Payment Transactions

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

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

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

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

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

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, gains and losses on hedging instruments that are recognised in the income statement (see accounting policy f) and gains or losses on the retranslation of financial assets and liabilities denominated in foreign currencies.

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

(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.

1. Accounting Policies continued

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	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Revenue								
External customers	74,099	45,187	275,865	259,184	—	—	349,964	304,371
Inter-segment	11,091	9,115	276	179	(11,367)	(9,294)	—	—
Total revenue	85,190	54,302	276,141	259,363	(11,367)	(9,294)	349,964	304,371
Adjusted operating profit	15,340	10,765	12,334	10,693	(2,703)	(2,316)	24,971	19,142
Amortisation of acquired intangibles and exceptional costs	(7,267)	(5,035)	(36)	(36)	—	—	(7,303)	(5,071)
Operating profit	8,073	5,730	12,298	10,657	(2,703)	(2,316)	17,668	14,071
Finance income							3,211	1,973
Finance expense							(4,776)	(4,339)
Profit before taxation							16,103	11,705
Income tax expense							(4,800)	(3,387)
Profit for the year							11,303	8,318
Assets								
Intangible assets	85,672	86,468	3,893	3,907	—	—	89,565	90,375
Property, plant and equipment	6,406	6,401	1,634	1,823	—	—	8,040	8,224
Other assets	39,449	35,140	87,858	80,706	185	650	127,492	116,496
Cash offset	—	—	—	—	(21,424)	(13,344)	(21,424)	(13,344)
Total assets	131,527	128,009	93,385	86,436	(21,239)	(12,694)	203,673	201,751

Notes to the Consolidated Financial Statements continued

2. Segmental Analysis continued

	Pharmaceuticals		Services		Unallocated		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Liabilities								
Borrowings	(680)	(506)	(1,016)	(1,418)	(62,072)	(60,636)	(63,768)	(62,560)
Other liabilities	(12,131)	(14,123)	(47,591)	(47,343)	(20,921)	(19,270)	(80,643)	(80,736)
Cash offset	—	—	—	—	21,424	13,344	21,424	13,344
Total liabilities	(12,811)	(14,629)	(48,607)	(48,761)	(61,569)	(66,562)	(122,987)	(129,952)
Net assets/(liabilities)	118,716	113,380	44,778	37,675	(82,808)	(79,256)	80,686	71,799
Other Segment Items								
Capital expenditure								
— intangible assets	1,284	77,238	84	295	—	—	1,368	77,533
— property, plant and equipment	786	3,448	300	232	—	—	1,086	3,680
Total capital expenditure	2,070	80,686	384	527	—	—	2,454	81,213
Share-based payments charge	—	—	—	—	741	759	741	759
Depreciation and amortisation	8,326	3,922	578	599	—	—	8,904	4,521

Geographical Segment

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

	2009	2008
	£'000	£'000
UK	296,426	277,463
Rest of Europe	39,017	20,460
USA	11,434	5,266
Rest of World	3,087	1,182
	349,964	304,371

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	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue by geographical origin	298,894	280,847	7,779	4,566	43,291	18,958	—	—	349,964	304,371
Adjusted operating profit by geographical origin	20,755	18,357	528	450	6,391	2,651	(2,703)	(2,316)	24,971	19,142
Total assets	129,641	118,401	4,916	2,275	90,355	93,769	(21,239)	(12,694)	203,673	201,751
Capital expenditure										
— intangible assets	1,281	3,584	—	—	87	73,949	—	—	1,368	77,533
— property, plant and equipment	963	787	33	17	90	2,876	—	—	1,086	3,680
Total capital expenditure	2,244	4,371	33	17	177	76,825	—	—	2,454	81,213

3. Finance Income

	2009	2008
	£'000	£'000
Recognised in the income statement		
Finance income arising from:		
— Cash and cash equivalents	1,854	1,631
— Derivatives at fair value through profit or loss	38	325
— Loans and receivables	291	17
— Foreign exchange gains	1,028	—
	3,211	1,973

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

	2009	2008
	£'000	£'000
Recognised directly in equity		
Foreign currency translation differences for foreign operations	4,866	2,415
Net loss on hedge of net investment in foreign operations	(1,532)	(807)
Amount recycled to income statement*	(256)	—
Recognised in foreign currency translation reserve	3,078	1,608

	2009	2008
	£'000	£'000
Fair value (losses)/gains on interest rate floor and ceiling	(1,423)	446
Income tax credit/(expense) on above	399	(125)
Amount recycled to income statement	—	31
Amount recycled to intangible assets	40	—
Recognised in hedging reserve	(984)	352
Total recognised in equity	2,094	1,960

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

4. Finance Expense

	2009	2008
	£'000	£'000
Finance expense arising from:		
— Financial liabilities at amortised cost	4,776	4,281
— Derivatives at fair value through profit or loss	—	58
	4,776	4,339

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.

Our Business

Our Performance

Our Governance

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Notes to the Consolidated Financial Statements continued

5. Adjusted Operating Profit and Profit Before Taxation

Adjusted operating profit is calculated as follows:

	2009	2008
	£'000	£'000
Operating profit		
Operating profit	17,668	14,071
Amortisation of intangible assets acquired as a result of business combinations	6,833	2,975
Rationalisation costs arising following the acquisition of Dechra Veterinary Products Holdings A/S (formerly VetXX Holdings A/S)	—	2,096
Payment to acquire technology for research and development programme	470	—
Adjusted operating profit	24,971	19,142

Adjusted profit before taxation is calculated as follows:

	2009	2008
	£'000	£'000
Profit before taxation		
Profit before taxation	16,103	11,705
Amortisation of intangible assets acquired as a result of business combinations	6,833	2,975
Rationalisation costs arising following the acquisition of Dechra Veterinary Products Holdings A/S	—	2,096
Payment to acquire technology for research and development programme	470	—
Write-off of unamortised arrangement fees on borrowings refinanced as a result of the acquisition of Dechra Veterinary Products Holdings A/S	—	77
Adjusted profit before taxation	23,406	16,853

6. Profit Before Taxation

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

	2009	2008
	£'000	£'000
Cost of inventories recognised as an expense	272,876	247,801
Impairment of inventories included in above figure	326	548
Depreciation of property, plant and equipment		
— owned assets	1,216	1,065
— under finance leases	261	226
Amortisation of intangible assets	7,427	3,230
(Profit)/loss on disposal of property, plant and equipment	(33)	15
Impairment of receivables	1,080	788
Operating lease rentals payable	3,171	2,719
Research and development expenditure as incurred	3,433	2,408
Auditors' remuneration	363	278
Analysis of total fees paid to the auditors:		
Audit of these financial statements	50	30
Audit of financial statements of subsidiaries pursuant to legislation	216	139
Other services pursuant to legislation	5	17
Other services relating to taxation	92	92
	363	278

In addition, payments made to the auditors of £nil (2008: £964,000) relating to corporate finance transactions have been capitalised as part of the acquisition cost of Dechra Veterinary Products Holdings A/S (formerly VetXX Holdings A/S).

7. Employees

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

	2009 Number	2008 Number
Manufacturing	237	203
Distribution	438	411
Administration	337	275
	1,012	889

The costs incurred in respect of these employees were:

	2009 £'000	2008 £'000
Wages and salaries	26,061	19,766
Social security costs	2,481	1,849
Other pension costs	1,262	813
Share-based payments charge (see note 23)	741	759
	30,545	23,187

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

	2009 £'000	2008 £'000
Wages and salaries (including benefits in kind)	2,108	1,750
Social security costs	270	224
Other pension costs	151	138
Share-based payments charge	503	510
	3,032	2,622

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

Details of the remuneration, shareholdings, share options and pension contributions of the Executive Directors are included in the Directors' Remuneration Report on pages 51 to 58.

The Group operates a stakeholder personal pension scheme for certain employees and contributed between 4% and 14% of pensionable salaries. The Group also participates in State run pension arrangements for certain employees in Dechra Veterinary Products SAS and Dechra Veterinary Products BV. Total pension contributions amounted to £1,262,000 (2008: £813,000).

Notes to the Consolidated Financial Statements continued

8. Income Tax Expense

	2009 £'000	2008 £'000
Current tax — charge for current year	5,707	3,687
— adjustment in respect of prior years	(53)	(29)
Total current tax expense	5,654	3,658
Deferred tax — origination and reversal of temporary differences	(1,008)	(300)
— adjustment in respect of prior years	154	29
Total deferred tax expense	(854)	(271)
Total income tax expense in the income statement	4,800	3,387

Of the current tax expense of £5,654,000, an amount of £139,000 (2008: £14,000) was in respect of foreign territories.

The tax on the Group's profit before tax differs from the standard rate of UK corporation tax of 28% (2008: 28%). The differences are explained below:

	2009 £'000	2008 £'000
Profit before taxation	16,103	11,705
Tax at 28% (2008: 28%)	4,509	3,277
Effect of:		
— depreciation on assets not eligible for tax allowances	53	15
— disallowable expenses	144	45
— overseas trading losses	39	—
— utilisation of overseas losses	—	(137)
— under-recovery of deferred tax on share-based payments	14	—
— research and development tax credits	(200)	—
— differences on overseas tax rates	140	(5)
— reduction in tax rate used to calculate deferred tax liability	—	16
— adjustments in respect of prior years	101	—
— adjustments due to changes in tax rate	—	176
Total income tax expense	4,800	3,387

Additional current tax credits of £495,000 (2008: £266,000) and a deferred tax charge of £43,000 (2008: £265,000) 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

	2009 £'000	2008 £'000
Final dividend paid in respect of prior year but not recognised as a liability in that year: 5.50p per share (2008: 5.00p)	3,600	2,640
Interim dividend paid: 3.00p per share (2008: 2.75p)	1,965	1,780
Total dividend 8.50p per share (2008: 7.75p) recognised as distributions to equity holders in the period	5,565	4,420
Proposed final dividend for the year ended 30 June 2009: 6.10p per share (2008: 5.50p)	4,000	3,600
Total dividend paid and proposed for the year ended 30 June 2009: 9.10p per share (2008: 8.25p)	5,965	5,380

In accordance with IAS 10 'Events After the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2009 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 2010.

The proposed final dividend for the year ended 30 June 2008 is shown as a deduction from equity in the year ended 30 June 2009.

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.

	2009 Pence	2008 Pence
Basic earnings per share		
— Adjusted basic	25.61	20.81
— Basic	17.27	14.20
Diluted earnings per share		
— Adjusted diluted	25.40	20.64
— Diluted	17.13	14.09

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	16,759	12,185
Earnings for basic and diluted earnings per share figures	11,303	8,318

	No.	No.
Weighted average number of ordinary shares for basic earnings per share	65,431,902	58,560,097
Impact of share options	550,580	464,486
Weighted average number of ordinary shares for diluted earnings per share	65,982,482	59,024,583

Notes to the Consolidated Financial Statements continued

11. Intangible Assets

	Goodwill	Software	Develop- ment costs	Patent rights	Marketing authori- sations	Acquired intangibles	Total
Cost	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 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
Foreign exchange adjustments	595	3	10	—	—	2,375	2,983
At 30 June 2008 and 1 July 2008	19,844	1,816	4,108	2,925	853	64,468	94,014
Additions	—	273	785	310	—	—	1,368
Disposals	—	—	—	(452)	—	—	(452)
Foreign exchange adjustments	1,261	8	21	—	—	4,411	5,701
At 30 June 2009	21,105	2,097	4,914	2,783	853	68,879	100,631
Amortisation							
At 1 July 2007	—	149	233	—	—	27	409
Charge for the year	—	132	123	—	—	2,975	3,230
At 30 June 2008 and 1 July 2008	—	281	356	—	—	3,002	3,639
Charge for the year	—	216	267	111	—	6,833	7,427
At 30 June 2009	—	497	623	111	—	9,835	11,066
Net book value							
At 30 June 2009	21,105	1,600	4,291	2,672	853	59,044	89,565
At 30 June 2008 and 1 July 2008	19,844	1,535	3,752	2,925	853	61,466	90,375
At 30 June 2007	4,852	1,159	2,273	1,046	853	2,906	13,089
						2009	2008
						£'000	£'000
Contracted capital commitments						302	—
Software assets in the course of construction included above						943	935

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 ended 30 June 2008 arose from the acquisition of Dechra Veterinary Products Holdings A/S (formerly 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.

The principal asset within patent rights comprises payments to acquire the right to develop and market Trilostane, the active ingredient of *Vetoryl* Capsules, for animal health applications in the USA and Canada. The carrying value at 30 June 2009 was £2.1 million with a remaining amortisation period of 9½ years.

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

Acquired intangibles comprise:

- Marketing authorisations, brands and trademarks of products recognised on the acquisition of Dechra Veterinary Products Holdings A/S (formerly *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

The principal assets within acquired intangibles are the marketing authorisations, brands and trademarks of products recognised on the acquisition of Dechra Veterinary Products Holdings A/S. The carrying value of these assets at 30 June 2009 was £56.6 million with a remaining amortisation period of 8½ years. The other significant assets within acquired intangibles are the trademarks and brands recognised on the acquisition of Pharmaderm Animal Health. The carrying value at 30 June 2009 was £2.2 million with a remaining amortisation period of 13 years.

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 2007	13	2,628	433	8,584	11,658
Additions	—	144	—	678	822
Acquisitions through business combinations	2,072	—	—	786	2,858
Disposals	—	—	(2)	(1,524)	(1,526)
Foreign exchange adjustments	84	—	—	32	116
At 30 June 2008 and 1 July 2008	2,169	2,772	431	8,556	13,928
Additions	—	160	—	926	1,086
Disposals	—	—	(230)	(17)	(247)
Foreign exchange adjustments	157	—	—	59	216
At 30 June 2009	2,326	2,932	201	9,524	14,983
Depreciation					
At 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 and 1 July 2008	61	851	431	4,361	5,704
Charge for the year	135	168	—	1,174	1,477
Disposals	—	—	(230)	(8)	(238)
At 30 June 2009	196	1,019	201	5,527	6,943
Net book value					
At 30 June 2009	2,130	1,913	—	3,997	8,040
At 30 June 2008 and 1 July 2008	2,108	1,921	—	4,195	8,224
At 30 June 2007	13	1,931	—	3,795	5,739
Net book value of assets held under finance leases					
At 30 June 2009	—	55	—	970	1,025
At 30 June 2008 and 1 July 2008	—	84	—	938	1,022
At 30 June 2007	—	70	—	1,172	1,242
				2009	2008
				£'000	£'000
Assets in the course of construction included above				221	290
Contracted capital commitments				269	327

13. Impairment Reviews

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

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

Projected future cash flows have been derived from the annual budget for the year ending 30 June 2010 extrapolated by applying a growth rate of 5% (2008: 5%) per annum up to year five and thereafter a growth rate of 1% (2008: nil%) per annum into perpetuity which is considered to be consistent with the long-term average growth rate for the industry.

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

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

Value in use calculations were performed at 30 June 2009 for the following assets:

(a) Goodwill

	2009		2008	
	Carrying value	Pre-tax discount rate	Carrying value	Pre-tax discount rate
Cash-generating unit	£'000	%	£'000	%
Dechra Veterinary Products EU	16,253	11.73	14,992	9.93
Laboratories	2,621	10.42	2,621	9.93
Dales	2,231	10.42	2,231	9.93

(b) Indefinite Life Assets

	2009		2008	
	Carrying value	Pre-tax discount rate	Carrying value	Pre-tax discount rate
Asset	£'000	%	£'000	%
Vetivex licences	822	11.73	822	9.93

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

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	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Intangible assets	—	—	(15,391)	(15,872)	(15,391)	(15,872)
Property, plant and equipment	—	—	(521)	(423)	(521)	(423)
Inventories	520	53	—	(72)	520	(19)
Receivables	44	—	(142)	(294)	(98)	(294)
Payables	427	248	—	—	427	248
Trading losses	91	1,309	—	—	91	1,309
Share-based payments	788	788	—	—	788	788
	1,870	2,398	(16,054)	(16,661)	(14,184)	(14,263)

Shown as:

	2009 £'000	2008 £'000
Deferred tax assets	—	1,053
Deferred tax liabilities	(14,184)	(15,316)
	(14,184)	(14,263)

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

(b) Unrecognised Deferred Tax Liabilities

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised is £2,230,000 (2008: £nil). The estimated unprovided deferred tax liability in relation to these temporary differences is £558,000 (2008: £nil).

14. Deferred Taxes continued**(c) Movement in Temporary Differences During the Year**

	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)
Payables	32	201	7	—	8	248
Trading losses	—	1,257	—	—	52	1,309
Share-based payments	856	—	72	(140)	—	788
	(147)	(13,569)	271	(265)	(553)	(14,263)

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

15. Inventories

	2009 £'000	2008 £'000
Raw materials and consumables	3,493	3,860
Work in progress	412	316
Finished goods and goods for resale	27,629	28,259
	31,534	32,435

16. Trade and Other Receivables

	2009 £'000	2008 £'000
Trade receivables	44,950	43,741
Other receivables	1,064	1,207
Derivative financial instruments	205	689
Prepayments and accrued income	1,498	1,808
	47,717	47,445

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17. Cash and Cash Equivalents

	2009 £'000	2008 £'000
Cash at bank and in hand	26,817	4,657
Short-term deposits	—	17,562
	26,817	22,219

The short-term deposits are repayable on demand.

18. Trade and Other Payables

	2009 £'000	2008 £'000
Trade payables	49,191	50,177
Other payables	4,643	5,412
Derivative financial instruments	977	—
Other taxation and social security	3,862	3,894
Accruals and deferred income	3,030	3,113
	61,703	62,596

19. Current Tax Liabilities

	2009 £'000	2008 £'000
Corporation tax payable	4,756	2,824

20. Borrowings

	2009 £'000	2008 £'000
Current liabilities:		
Bank loans and overdrafts	18,648	20,616
Finance lease obligations	615	602
	19,263	21,218
Non-current liabilities:		
Bank loans	22,500	27,500
Finance lease obligations	1,231	1,507
Arrangement fees netted off	(650)	(1,009)
	23,081	27,998
Total borrowings	42,344	49,216

The Group's borrowing facilities comprise a term loan of £27.5 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 31 August 2010 and various finance lease obligations.

20. Borrowings continued

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

	2009 £'000	2008 £'000
Bank overdraft facility	10,000	10,000

The term loan, revolving credit and overdraft facilities are secured by a fixed and floating charge on the assets of the Group. Interest is charged at 0.85% over LIBOR in respect of the term loan and revolving credit facility and 2.5% over base rate in respect of the overdraft facility. No covenants have been breached during the year ended 30 June 2009.

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

	2009 £'000	2008 £'000
Payable:		
Within one year	18,648	20,616
Between one and two years	5,000	5,000
Between two and five years	15,000	15,000
Due after five years	2,500	7,500
	41,148	48,116

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	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Within one year	724	786	615	602
Between one and two years	533	631	461	517
Between two and five years	816	1,116	770	990
Total minimum lease payments	2,073	2,533	1,846	2,109
Future finance charges	(227)	(424)	—	—
Present value of lease obligations	1,846	2,109	1,846	2,109

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

Notes to the Consolidated Financial Statements continued

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 2009, net borrowings were £15.5 million, whilst shareholders' equity was £80.7 million.

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

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

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

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

Financial Risk Management

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

- liquidity risk
- market risk
- credit risk

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

21. Financial Instruments and Related Disclosures continued

Liquidity Risk

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

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

- £27.5 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 2009 are detailed in note 20.

Market Risk

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

Interest Rate Risk Management

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

The Group has hedged interest rate risk on its term loan by means of an interest rate floor and ceiling arrangement whereby the Group's exposure to fluctuations in LIBOR is limited to a minimum rate of 4.40% and a maximum rate of 5.70%. The amount of the term loan outstanding at 30 June 2009 was £27.5 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.

Notes to the Consolidated Financial Statements continued

21. Financial Instruments and Related Disclosures continued

Credit Risk

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

The Group considers its maximum credit risk to be £71,972,000 (2008: £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 8.0% of gross trade receivables at 30 June 2009 (2008: 7.5%).

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

Fair Value of Financial Assets and Liabilities

The following table presents the carrying amounts and the fair values of the Group's financial assets and liabilities at 30 June 2009 and 30 June 2008.

The following assumptions were used to estimate the fair values:

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

21. Financial Instruments and Related Disclosures continued

Analysis of Financial Instruments

The financial instruments of the Group are analysed as follows:

	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	26,817	26,817	22,219	22,219
Held for trading financial assets:				
— derivatives designated as hedges	—	—	446	446
— other derivatives	205	205	689	689
	205	205	1,135	1,135
Loans and receivables				
— trade receivables	44,950	44,950	43,741	43,741
— other receivables within the scope of IAS 39	—	—	285	285
	44,950	44,950	44,026	44,026
Total financial assets	71,972	71,972	67,380	67,380
Financial liabilities				
Bank loans and overdrafts	(40,498)	(39,233)	(47,107)	(47,107)
Held for trading financial liabilities				
— derivatives designated as hedges	(977)	(977)	—	—
Finance lease liabilities	(1,846)	(1,976)	(2,109)	(2,177)
Trade payables	(49,191)	(49,191)	(50,177)	(50,177)
Total financial liabilities	(92,512)	(91,377)	(99,393)	(99,461)
Net financial liabilities	(20,540)	(19,405)	(32,013)	(32,081)

Credit Risk — Overdue Financial Assets

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

	2009	2008
	£'000	£'000
Overdue by:		
Up to one month	2,520	2,590
Between one and two months	569	930
Between two and three months	365	431
Over three months	710	1,452
	4,164	5,403

The movement in the impairment provision was as follows:

	2009	2008
	£'000	£'000
At 1 July 2008	1,583	3,177
Impairment provision recognised	1,080	846
Impairment provision utilised	(161)	(2,440)
At 30 June 2009	2,502	1,583

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21. Financial Instruments and Related Disclosures continued

Liquidity risk — Contracted Cash Flows of Financial Liabilities

The following table shows the cash flow commitments of the Group in respect of financial liabilities excluding derivatives at 30 June 2009 and 30 June 2008. Where interest is at floating rates, the future interest payments have been estimated using current interest rates:

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

	Bank Loans and Overdrafts £'000	Finance Leases £'000	Trade Payables £'000	Total £'000
At 30 June 2008				
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 £16,523,000 payable within six months, £15,000,000 is available to be drawn down again.

21. Financial Instruments and Related Disclosures continued

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

	2009		2008	
	Receivables £'000	Payables £'000	Receivables £'000	Payables £'000
Due:				
Within 6 months	3,305	3,464	2,306	1,978
Between 6 months and 1 year	1,721	1,800	2,231	1,955
Between 1 and 2 years	—	—	2,231	2,072
	5,026	5,264	6,768	6,005

At 30 June 2009, the Group had entered into forward exchange contracts to buy DKK44 million (£5.026 million translated at the closing exchange rate) and sell £4.822 million. The fair value gain arising during the year of £38,000 is recognised within finance income (see note 3).

The Group has a contractual obligation to pay £442,000 (2008: receive £75,000) under its interest rate floor and ceiling arrangement covering the period from 1 July to 31 December 2009.

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.

Foreign Currency Exposure

The Sterling equivalents of financial assets and liabilities denominated in foreign currencies at 30 June 2009 and 30 June 2008 were:

	Danish Krone £'000	Euro £'000	US Dollar £'000	Other £'000
At 30 June 2009				
Financial assets				
Trade receivables	—	2,825	—	1,001
Other receivables	—	157	—	—
Cash balances	—	4,214	872	178
Derivatives	—	—	—	—
Other financial assets	—	—	—	—
	—	7,196	872	1,179
Financial liabilities				
Bank loans and overdrafts	(22,018)	(1,038)	—	—
Finance leases	—	(1,209)	—	—
Trade payables	(21)	(694)	(136)	(50)
Derivatives	—	—	—	—
	(22,039)	(2,941)	(136)	(50)
Net balance sheet exposure	(22,039)	4,255	736	1,129

Notes to the Consolidated Financial Statements continued

21. Financial Instruments and Related Disclosures continued

	Danish Krone £'000	Euro £'000	US Dollar £'000	Other £'000
At 30 June 2008				
Financial assets				
Trade receivables	—	2,789	—	761
Other receivables	—	84	—	—
Cash balances	—	3,328	—	388
Derivatives	—	—	—	—
Other financial assets	—	—	—	—
	—	6,201	—	1,149
Financial liabilities				
Bank loans and overdrafts	(20,791)	—	—	—
Finance leases	—	(1,286)	—	—
Trade payables	—	(581)	(88)	(73)
Derivatives	—	—	—	—
	(20,791)	(1,867)	(88)	(73)
Net balance sheet exposure	(20,791)	4,334	(88)	1,076

Sensitivity Analysis

Interest Rate Risk

A 2% increase in interest rates compared to those ruling at 30 June 2009 would reduce Group profit before taxation by £300,000.

Foreign Currency Risk

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

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

	Profit before taxation £'000	Net assets £'000
Danish Krone	(1,674)	324
US Dollar	(950)	(950)
Euro	(1,478)	(1,478)

21. Financial Instruments and Related Disclosures continued

Hedges

Cash Flow Hedges

The Group has entered into an interest rate floor and ceiling on the term loan of £27.5 million and designated it a cash flow hedge. The risk being hedged is the variability of cash flows arising from movements in interest rates. No ineffectiveness 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 2009 was a liability of £703,000 including an income tax credit of £274,000 (2008: asset of £321,000 including an income tax charge of £125,000).

During the year, an amount of £40,000 (net of an income tax charge of £15,000) was released from the hedging reserve and added to intangible assets, following the underlying transaction.

Net Investment Hedges

Borrowings in Danish Kroner taken out at the time of the acquisition of Dechra Veterinary Products Holdings A/S (formerly 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 Dechra Veterinary Product Holdings A/S. No ineffectiveness arose on the hedge.

22. Share Capital

	Ordinary shares of 1p each			
	2009		2008	
	£'000	No.	£'000	No.
Authorised	1,000	100,000,000	1,000	100,000,000
Allotted, called up and fully paid at start of year	652	65,241,909	528	52,803,699
New shares issued	4	340,015	124	12,438,210
Allotted, called up and fully paid at end of year	656	65,581,924	652	65,241,909

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 Dechra Veterinary Products Holdings A/S (formerly VetXX Holdings A/S). The gross proceeds raised were £35.2 million.

During the year, 340,015 new ordinary shares of 1p (2008: 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 Options Schemes. The consideration received was £275,000 (2008: £537,000). The holders of ordinary shares are entitled to receive dividends as declared or approved at General Meetings from time to time and are entitled to one vote per share at such meetings of the Company.

Notes to the Consolidated Financial Statements continued

23. Share-based Payments

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

Unapproved and Approved Share Option Schemes

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

Executive Incentive Plan

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

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

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

Long Term Incentive Plan

For awards granted after 30 June 2008 under this plan, vesting is dependent firstly on an earnings per share target. No awards will vest unless adjusted diluted earnings per share has grown by at least 3% per annum above the retail prices index over the three year measurement period. Provided this condition is met, then the number of shares that vest depends on the Company's TSR performance against the FTSE Small Cap Index over the three year measurement period. One hundred per cent of the shares vest if the Company achieves an upper quartile performance, 25% of the shares vest at median performance and awards vest on a straight-line basis for performance in between. No shares vest if performance is below median.

SAYE Option Scheme

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

23. Share-based Payments continued

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

Year ended 30 June 2009

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

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23. Share-based Payments continued 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	36,500	(27,000)	—	—	9,500
19 March 2007	2010–2017	289	26,139	—	—	—	26,139
2 April 2008	2011–2018	366	—	—	58,038	(10,000)	48,038
			152,639	(91,500)	58,038	(12,000)	107,177
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	—	—	(10,000)	152,000
19 March 2007	2010–2017	289	161,861	—	—	(11,000)	150,861
2 April 2008	2011–2018	366	—	—	70,962	—	70,962
			582,861	(123,833)	70,962	(29,000)	500,990
Executive Incentive Plan							
9 October 2004	2006–2007	—	182,525	(182,525)	—	—	—
3 October 2005	2008–2009	—	205,140	—	—	—	205,140
14 September 2006	2009–2010	—	216,128	—	—	—	216,128
29 February 2008	2011–2012	—	—	—	152,472	—	152,472
			603,793	(182,525)	152,472	—	573,740
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			2,050,716	(813,666)	446,431	(61,307)	1,622,174
Weighted average exercise price			115.0p	65.4p	209.2p	245.0p	156.8p

The weighted average exercise price of options eligible to be exercised at 30 June 2009 was 108p (2008: 75p).

For options exercised during the year, the weighted average market price at the date of exercise was 400p (2008: 409p). The weighted average remaining contractual lives of options outstanding at the balance sheet date was four years (2008: four years).

Outstanding options on all Executive Incentive, Approved and Unapproved plans prior to 30 June 2006 were exercisable at 30 June 2009. No options issued under SAYE plans were exercisable at 30 June 2009.

23. Share-based Payments continued

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

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

The assumptions used in calculating fair value are as follows:

Executive Incentive Plan and Long Term Incentive Plan

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

Unapproved and Approved Share Option Schemes

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

Save as You Earn Option Scheme

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

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

Notes to the Consolidated Financial Statements continued

23. Share-based Payments continued

National Insurance contributions are payable by the Company in respect of some of the share-based payments. These contributions are payable on the date of exercise based on the intrinsic value of the share-based payments and are therefore treated as cash-settled awards. The Group had an accrual at 30 June 2009 of £220,000 (2008: £229,000), of which £6,000 (2008: £123,000) related to vested options. The total charge to the Income Statement in respect of share-based payments was:

	2009 £'000	2008 £'000
Equity-settled share-based transactions	643	603
Cash-settled share-based transactions	98	156
	741	759

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

24. Analysis of Net Borrowings

	2009 £'000	2008 £'000
Bank loans and overdraft	(40,498)	(47,107)
Finance leases and hire purchase contracts	(1,846)	(2,109)
Cash and cash equivalents	26,817	22,219
Net borrowings	(15,527)	(26,997)

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	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Within one year	1,146	1,081	1,624	1,670	2,770	2,751
Between one and five years	3,982	3,943	1,921	1,708	5,903	5,651
In five years or more	2,116	3,343	27	—	2,143	3,343
	7,244	8,367	3,572	3,378	10,816	11,745

26. Foreign Exchange Rates

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

	Closing rate at 30 June 2008	Average rate	Closing rate at 30 June 2009
Danish Krone	9.4136	8.74809	8.7572
Euro	1.2635	1.1736	1.1760
US Dollar	1.9954	1.61593	1.6520

27. Acquisition of Subsidiary

There have been no acquisitions in the year ended 30 June 2009.

On 15 January 2008 the Company acquired the entire share capital of Dechra Veterinary Products Holdings A/S (formerly 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

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 Dechra Veterinary Products Holdings A/S made a consolidated 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.

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28. Contingency

The Danish tax authorities have opened an investigation into the tax return of Dechra Veterinary Products Holdings A/S (formerly VetXX Holdings A/S) for the period ended 31 December 2005, a period prior to the acquisition of the company. They are seeking to reduce the tax losses arising in this year by DKK17.5 million. The Directors believe that there are strong arguments to resist this claim. However, should the dispute be lost, the deferred tax asset recognised on acquisition would be reduced by approximately £500,000.

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

In the process of applying the Group's accounting policies as described in note 1, the Directors have made the following judgements and estimates that have the most significant effect on the amounts recognised in the Financial Statements. The key sources of estimation uncertainty which may cause a material adjustment to the carrying amount of assets and liabilities are also discussed below:

Impairment of Goodwill and Indefinite Life Intangible Assets

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

Impairment of Receivables

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

Capitalisation of Development Costs

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

Contingency

Please refer to note 28.

30. Related Party Transactions Subsidiaries

The Group's ultimate Parent Company is Dechra Pharmaceuticals PLC. A listing of all principal subsidiaries is shown within the financial statements of the Company on page 119.

Transactions with Key Management Personnel

The details of the remuneration, long-term incentive plans, shareholdings, share options and pension entitlements of individual Directors are included in the Directors' Remuneration Report on pages 51 to 58. The remuneration of key management is disclosed in note 7.

Financial History

	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Income statement					
Revenue	349,964	304,371	253,803	232,471	210,267
Adjusted operating profit	24,971	19,142	13,876	12,312	11,255
Adjusted profit before taxation	23,406	16,853	12,646	11,044	9,701
Adjusted profit after taxation	16,759	12,185	8,866	7,557	7,027
Adjusted earnings per share — basic (pence)	25.61	20.81	16.89	14.71	13.77
— diluted (pence)	25.40	20.64	16.66	14.36	13.54
Dividend per share (pence)	9.10	8.25	7.50	6.24	5.20
Average number of employees	1,012	889	747	691	679
Balance sheet					
Non-current assets	97,605	99,652	18,828	13,567	12,391
Working capital	17,548	17,284	13,264	11,774	12,127
Current tax liabilities	(4,756)	(2,824)	(2,464)	(2,505)	(2,057)
Deferred tax liabilities	(14,184)	(15,316)	(147)	—	—
Net (borrowings)/cash	(15,527)	(26,997)	1,027	1,079	(4,859)
Shareholders' funds	80,686	71,799	30,508	23,915	17,602
Cash flow					
Cash flow from operating activities	27,557	16,053	14,328	13,997	13,549
Net interest paid	(1,851)	(2,802)	(1,169)	(1,218)	(1,667)
Tax paid	(3,227)	(3,041)	(2,895)	(2,618)	(1,996)
Capital expenditure	(3,634)	(2,112)	(5,325)	(1,492)	(1,925)
Acquisitions	—	(65,151)	(717)	—	—
Equity dividends paid	(5,565)	(4,420)	(3,595)	(2,777)	(2,473)
Financing	(8,843)	66,500	(3,124)	(97)	11,760
Changes in cash in period	4,437	5,027	(2,497)	5,795	17,248

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Company Balance Sheet

At 30 June 2009

	Note	2009 £'000	2008 £'000
Fixed assets			
Investments	iii	94,366	94,366
		94,366	94,366
Current assets			
Debtors (includes amounts falling due after more than one year of £21,792,000 (2008: £228,000))	iv	45,925	47,574
Cash at bank and in hand		7	7
		45,932	47,581
Creditors: amounts falling due within one year	v	(42,536)	(37,087)
Net current assets		3,396	10,494
Total assets less current liabilities		97,762	104,860
Creditors: amounts falling due after more than one year	v	(21,961)	(26,641)
Net assets		75,801	78,219
Capital and reserves			
Called up share capital	ix	656	652
Share premium account	x	62,437	62,166
Hedging reserve	x	(703)	281
Profit and loss account	x	13,411	15,120
Total equity Shareholders' funds		75,801	78,219

The financial statements were approved by the Board of Directors on 1 September 2009 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 2009

	2009 £'000	2008 £'000
At start of period	78,219	33,563
Profit for the financial year	3,213	13,872
Movement in hedging reserve	(984)	352
Share-based payments charge	643	603
Dividends paid	(5,565)	(4,420)
New shares issued	275	34,249
At end of period	75,801	78,219

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Notes to the Company Financial Statements

(i) Principal Accounting Policies of the Company

Accounting Principles

The Company Balance Sheet has been prepared under the historical cost convention except for derivatives which are stated at fair value in accordance with applicable UK accounting standards and the Companies Act 1985 and 2006.

Basis of Preparation

No Profit and Loss Account is presented for the Company as permitted by Section 408(2) and (3) of the Companies Act 2006. The profit dealt with in the accounts of the Company was £3,213,000 (2008: £13,872,000).

Investments

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

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.

(i) Principal Accounting Policies of the Company continued

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.

(ii) Share-based Payment Transactions

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

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

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

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

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

Where the Company grants options over its own shares to the employees of its subsidiaries it recharges the expense to those subsidiaries.

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 £1,754,000 (2008: £1,378,000). Information relating to Directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 51 to 58.

Notes to the Company Financial Statements continued

(iii) Fixed Asset Investments

	Shares in Subsidiary Undertakings £'000
Cost and net book value At 1 July 2008 and 30 June 2009	94,366

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

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

(iv) Debtors

	2009 £'000	2008 £'000
Amounts owed by subsidiary undertakings	44,519	45,048
Group relief receivable	561	1,655
Deferred taxation (see note viii)	667	228
Other debtors	40	508
Prepayments and accrued income	138	135
	45,925	47,574

Included in debtors are amounts of £667,000 (2008: £228,000) due after more than one year relating to deferred tax assets. Of the amounts owed by subsidiary undertakings, £21,125,000 is due after more than one year (2008: £nil).

(v) Creditors

	2009 £'000	2008 £'000
		Falling due within one year
Bank loans and overdrafts (see note vi)	40,072	33,960
Finance lease obligations	39	35
Amounts due to subsidiary undertakings	444	1,962
Other creditors	14	11
Derivative financial instruments	977	—
Other taxation and social security	49	40
Accruals and deferred income	941	1,079
	42,536	37,087

In accordance with FRS 21, Events after the Balance Sheet Date, the proposed final dividend for the year ended 30 June 2009 of 6.10p 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 2010. The total cost of the proposed final dividend is £4,000,000.

	2009 £'000	2008 £'000
		Falling due after more than one year
Bank loans (see note vi)	21,850	26,491
Finance lease obligations	111	150
	21,961	26,641

(vi) Borrowings

	2009 £'000	2008 £'000
Borrowings due within one year		
Bank overdraft	21,424	13,344
Bank loan	18,648	20,616
Finance lease obligations	39	35
	40,111	33,995
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	15,000
after five years	2,500	7,500
	22,500	27,500
Arrangement fees netted off	(650)	(1,009)
	21,850	26,491
Finance lease obligations repayable:		
between one and two years	44	39
between two and five years	67	111
	111	150
Total borrowings	62,072	60,636

The bank loans, revolving credit and overdraft facilities are secured by a fixed and floating charge on the assets of the Group. Interest is charged at 0.85% over LIBOR on the bank loan and revolving credit facility and 2.5% over base rate on the bank overdraft. No covenants have been breached during the year ended 30 June 2009.

The Company guarantees certain borrowings of other Group companies, which at 30 June 2009 amounted to £1,696,000 (2008: £1,924,000).

(vii) Financial Instruments

	2009 £'000	2008 £'000
Changes in fair value charged to profit and loss	—	(58)

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'.

(viii) Deferred Tax

	£'000
At 1 July 2008	228
Transfer to profit and loss account	56
Transfer to equity	383
At 30 June 2009 (included in debtors)	667

The amounts provided for deferred taxation at 28% (2008: 28%) are as follows:

	2009 £'000	2008 £'000
Short-term timing differences	(667)	(228)

Our Business

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Notes to the Company Financial Statements continued

(ix) Called up Share Capital

	Ordinary Shares of 1p each	
	£'000	No.
Issued share capital		
Allotted, called up and fully paid at 1 July 2008	652	65,241,909
New shares issued	4	340,015
Allotted, called up and fully paid at 30 June 2009	656	65,581,924
Authorised share capital		
At 30 June 2009	1,000	100,000,000
At 30 June 2008	1,000	100,000,000

During the year, 340,015 new ordinary shares of 1p were issued following the exercise of options under the Executive Incentive Plan and the Approved, Unapproved and SAYE share option schemes. The consideration received was £275,000.

Share Options

Details of outstanding share options over ordinary shares of 1p at 30 June 2009 under the various Group share option schemes are shown in note 23 to the Consolidated Financial Statements.

(x) Reserves

	Share premium account £'000	Hedging reserve £'000	Profit and loss account £'000
At 1 July 2008	62,166	281	15,120
New shares issued	271	—	—
Profit for the financial year	—	—	3,213
Movement in hedging reserve	—	(984)	—
Dividend (see note 9 to Consolidated Financial Statements)	—	—	(5,565)
Share-based payments charge	—	—	643
At 30 June 2009	62,437	(703)	13,411

(xi) 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
Dechra Veterinary Products Holdings A/S	Denmark	Denmark	Holding company
Dechra Veterinary Products A/S#	Denmark	Denmark	Marketer and manufacturer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products OY¶	Finland	Finland	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products SAS¶	France	France	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products BV¶	Holland	Holland	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products AS¶	Norway	Norway	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products SLU¶	Spain	Spain	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products AB¶	Sweden	Sweden	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products 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 Dechra Veterinary Products Holdings A/S.

¶ 100% of ordinary share capital held by Dechra Veterinary Products 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 exceptional costs.

Adjusted Pre-Tax Profit

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

Bioequivalence

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

Cortisol

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

Cushing's Disease

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

EBITDA

Earnings before interest, tax, depreciation and amortisation.

Exceptional Items

Significant items of income or expense which, due to their nature or the expected infrequency of the events giving rise to them, are shown separately on the face of the income statement to give a better understanding of underlying performance.

FDA

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

Hyperthyroidism

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

Intertrigo

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

Malassezia

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

MHRA

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

NSAID

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

Otitis Externa

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

Product Pipeline

This involves four stages which are as follows:

- Manufacturing — the part of the dossier which documents the quality, purity and physical characteristics of both the active ingredient and the final formulation (e.g. tablets, capsules, liquid).
- Safety — the part of the dossier which documents the effects of the final formulation at above normal dosage levels in the intended species.
- Efficacy — the part of the dossier which documents the effectiveness of the final formulation in the intended species. The studies may be controlled model studies or studies in animals with the naturally occurring disease.
- Regulatory — the period of time that regulatory agencies take to review the various sections of the dossier.

Staphylococcal Infections

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

Surface Pyoderma

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

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