

## Directors' Report: Our Governance

## Corporate Governance

**Michael Redmond**

Non-Executive Chairman

Dear Shareholder

On behalf of the Board I am pleased to present Dechra's Corporate Governance Report for the year ended 30 June 2012.

As you will no doubt realise, the 2011/2012 financial year has been a busy period as we completed the acquisition of *Eurovet*, our biggest acquisition to date. As a result of this acquisition we have moved from being a constituent member of the FTSE Small Cap to the FTSE 250. This transaction has re-emphasised the importance of governance within our strategy and decision making.

This year, for the first time, all of the Board will stand down and seek re-election at the forthcoming Annual General Meeting in line with the UK Corporate Governance Code. Further detail in relation to this is provided later in this report. However, we have chosen to continue with our internal board evaluation process rather than seek an externally facilitated review. As we reported last year, the internal evaluation process has been substantially enhanced. All board members embraced the process, resulting in open and honest discussions which gave rise to a number of action points being agreed and then taken forward by the Executive Directors; the action points arising from the 2010/2011 board evaluation are explained later in this report. The 2012 board evaluation process has commenced in a similar vein and I look forward to reporting the action points to you in next year's report. The Board will give consideration to a potential external evaluation next year.

Board diversity, not only in terms of gender but in its wider context, has also been discussed by the Board and we are in the process of formulating our diversity policy. A recruitment process has commenced for two additional Non-Executive Directors and if possible at least one of these will be a female appointment. I recognise that my leadership of the Board over the forthcoming year is critical to ensuring that the new Directors settle into their roles quickly and effectively. I will work alongside the Company Secretary to ensure that they receive a detailed and tailored induction to the Group upon their appointments.

In July 2012 we received Bryan Morton's resignation following an increase in his professional commitments outside Dechra. During his tenure the Group completed a number of material acquisitions and I would like to take this opportunity to thank him for his input and valued contribution to the Group and wish him well in the future.

Finally, I look forward to working with the Board over the coming year in order to continue to deliver growth and progress our strategy. Should you have any questions in relation to this report, please feel free to contact myself or the Company Secretary.

A handwritten signature in black ink, appearing to read 'M Redmond', written over a horizontal line.

**Michael Redmond**

Non-Executive Chairman

## Directors' Report: Corporate Governance

The Financial Reporting Council's UK Corporate Governance Code (the "Code") establishes the principles of good governance for companies; the following report describes how the Company has applied these principles to its activities. The Board remains committed to maintaining high standards of corporate governance and continually strives to do so. In the opinion of the Directors, the Company has complied with the Code throughout the period under review.

The Company became a constituent member of the FTSE 250 in June 2012; however, in line with the Code, it is classed as a small company for this reporting period.

## Leadership

### The Board

The Board is led by the Chairman, Mike Redmond, and comprises three Executive Directors and, following the resignation of Bryan Morton on 9 July 2012, two Non-Executive Directors. The biographical details of the Board of Directors are shown on pages 40 to 41.

### The Chairman

The primary role of the Chairman is to:

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

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

The Chairman, at the time of his appointment, did meet and continues to meet the independence criteria defined within the Code. During the 2011 board evaluation process one of the areas which the Board focused on was succession planning, particularly in light of the fact that the Chairman, and also the Senior Independent Director, have both held their positions for in excess of nine years. Given the changes at board level and the scale of acquisitions which have taken place over the last two years it was felt necessary to give consideration to the Chairman remaining in position for a further three years in order to oversee the induction and development of the new Non-Executive Directors. A letter was sent to the Company's top ten Shareholders outlining this proposal and, in August 2012, it was agreed by the Nomination Committee that the position of the Chairman would be reviewed again prior to the 2014 Annual General Meeting.

The Nomination Committee will continue to rigorously review the Chairman's position on an annual basis. At the most recent meeting of this Committee, it was agreed that Mike Redmond continues to lead the Board effectively and maintains his independence and integrity at all times. He provides an invaluable contribution and insight to the Board by reason of both his previous pharmaceutical experience and detailed knowledge of the Company.

### Non-Executive Directors

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

As stated above, post year end, Bryan Morton resigned as a Non-Executive Director. Bryan resigned as he considered he could no longer provide the requisite time commitment required for his position on the Board and as Chairman of the Remuneration Committee due to an increase in other professional commitments. The process has now commenced to appoint a replacement for Bryan Morton and also to appoint a further Non-Executive Director with a financial background who will replace Neil Warner as Chairman of the Audit Committee on his proposed resignation at the 2013 Annual General Meeting. The Board understands the benefits of a diverse membership and is committed to ensuring that, subject to having the relevant experience and skills to sit on the Board, if possible at least one of the appointments will be female.

**Directors' Report: Our Governance****Corporate Governance continued****Senior Independent Director**

Neil Warner has been our Senior Independent Director since 5 November 2010. As such he will continue to be available to Shareholders in respect of any concerns they may have where contact through the normal channels has failed to resolve the issues or for which such contact is inappropriate.

The Senior Independent Director also works with the Chairman on the process for the selection of a new Chairman and chairs the Nomination Committee when it is considering the succession of that role. Furthermore, the Senior Independent Director carries out the annual evaluation of the performance of the Chairman.

Neil Warner has held a Non-Executive Directorship with the Company since 2 May 2003. Following consultation with the Group's top ten Shareholders (as described above), it is likely that Neil Warner will stand down at the 2013 Annual General Meeting.

**Chief Executive**

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

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

**Company Secretary**

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

**Corporate Governance Framework**

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

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

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

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

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

## Board Meetings

Following a review of the number of scheduled board meetings it was agreed to reduce these from eleven to nine per year. The board meetings are generally held at *NVS*, Stoke-on-Trent, with the intention that at least one meeting a year is held at another operational site within the Group. During the year four additional meetings were required to discuss the acquisition of *Eurovet*.

Attendance at the board and nomination committee meetings during the year to 30 June 2012 was as follows (details of attendance at the audit and remuneration committee meetings are provided on pages 56 and 60 respectively):

Name	Board (14 Meetings)	Nomination (1 Meeting)
Mike Redmond	14	1
Bryan Morton	12	1
Dr Chris Richards	12	1
Neil Warner	13	1
Ian Page	14	n/a
Simon Evans	14	n/a
Ed Torr	13	n/a

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

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

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

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

## Board Meeting Agenda and Papers

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

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

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

As reported in the 2011 Annual Report, after a comprehensive review of the Group strategy, it was decided to reduce the number of board meetings attended by the senior management team from a quarterly basis to specific meetings. An annual strategic agenda was drawn up and approved by the Board. This agenda ensures that key strategic objectives are discussed on a regular basis. A list of operational areas such as business development, marketing, product development, human resources and IT are now diarised as agenda items for strategic consideration at future board meetings. Additionally, every six months, a comprehensive review of the Group strategy is carried out. This agenda provides the Board with an opportunity to speak with the senior managers on a one to one basis and gain a more in-depth understanding of their area of responsibility. During the year the following business presentations have been made:

Date of Meeting	Presentation Subject	Delivered by
July 2011	Oracle implementation within Manufacturing	Kirsty Ireland (Dechra Manufacturing Finance Director)
October 2011	Product Development Pipeline Update	Susan Longhofer (Product Development and Regulatory Affairs Director)
December 2011	<i>NVS</i> — ERP system post implementation update  Human Resources Update (including update on the implementation of the Performance Development Review process and also succession planning)	Martin Riley ( <i>NVS</i> Managing Director)  Barbara Johnson (Group HR Director)
January 2012	Manufacturing Update (with an additional focus on supply chain management)	Mike Annice (Managing Director, Dechra Manufacturing)

On a regular basis the Chief Executive and Group Finance Director attend the board meetings of the businesses which make up the operating segments (in relation to the US these meetings are generally held by video conference). The meetings are chaired by the Chief Executive allowing him and the Group Finance Director the opportunity to obtain detailed information on the businesses' strategic, operational and financial progress including any issues potentially preventing the achievement of those targets. Key operational information obtained from these meetings is then fed back to the Board.

The Chief Executive along with the Product Development and Regulatory Affairs Director also chairs at least two product development meetings per year. Representatives from marketing and manufacturing departments generally attend the meeting thereby allowing the product pipeline to be comprehensively reviewed.

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

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

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

## Effectiveness

### Board Balance and Independence

The Board recognises and understands the importance of balance and refreshment in terms of its composition. The following changes have taken place at Board level over the past 24 months:

- Retirement of Malcolm Diamond (Non-Executive Director) on 5 November 2010;
- Appointment of Bryan Morton (Non-Executive Director) on 8 January 2010;
- Appointment of Dr Chris Richards (Non-Executive Director) on 1 December 2010; and
- Resignation of Bryan Morton on 9 July 2012.

The following changes are scheduled to take place over the forthcoming 24 months:

- The appointment of Tony Griffin (Managing Director of DVP EU) as an Executive Director. It is intended that he will be appointed by no later than the end of the 2012 calendar year (once the integration of *Eurovet* into the Group has been fully achieved);
- The appointment of two additional Non-Executive Directors (one of whom will fill the vacancy created by Bryan Morton's recent resignation and one will replace Neil Warner in 2013 as Chairman of the Audit Committee); and
- The proposed retirement of Neil Warner at the 2013 Annual General Meeting at which point recruitment for a further Non-Executive Director will commence.

As previously stated, Mike Redmond's tenure as Chairman will be reviewed prior to the 2014 Annual General Meeting. The Board appreciates that Mike Redmond has held the position of Chairman for over nine years but, given the number of changes to the Board it is considered to be in the best interests of the Company and its stakeholders for him to continue in this position until the recent (and forthcoming) board changes have settled in. This will allow the newer members of the Board to draw upon the Chairman's experience, whilst allowing him to oversee their induction and development.

An external executive search agency has been retained to assist the Board in the recruitment of the two new Non-Executive Directors and it is intended that these recruitments will be completed by the end of the 2012 calendar year.

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

### Diversity

The Board understands the importance of having a diverse membership and recognises that diversity encompasses not only gender but also diversity in terms of background and experience.

Although there are currently no female board members, 25.0% (2011: 37.0%) of the senior management team, 14.3% (2011: 14.3%) of the subsidiary executive boards and 44.8% (2011: 41.7%) of the overall workforce are females. In terms of the two Non-Executive Director positions currently being recruited female candidates have been specifically requested and if possible that appointment of a female will be made in respect of at least one of the positions.

### Conflicts of Interest

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

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#### Information and Professional Development

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

In order to ensure that the Board maintain their knowledge and familiarity with the Group's operations it is intended that at least one board meeting per year is held at one of the Group's operational sites (other than *NVS* where the board meetings are usually held). During the year a board meeting was held at *Dales*, Skipton, in June, where the Board had an opportunity to be shown around the manufacturing facility and meet with employees. Following the acquisition of *Eurovet* it is proposed to hold a board meeting at the main facility in the Netherlands during 2012/2013.

Any newly appointed Directors are provided with comprehensive documentation aimed at providing information in relation to the remit and obligations of the role, current areas under consideration for the Board and also the latest broker reports. New Directors are also offered the opportunity to visit the various business units in order to allow them to meet with the executive teams and to be shown around the operations.

The Company Secretary and Chairman are aware of the ongoing requirement to review and agree with each Director their training needs. In order to assist with these training requirements the Company Secretary provides briefings for the Directors, where necessary, that cover a number of legal and regulatory changes and developments relevant to the Director's areas of responsibility. During the year these briefings included an update in respect of board diversity and the recent developments in narrative reporting. The Company's lawyers, DLA Piper (UK) LLP, were also invited to present a competition law update to the Board. In addition, the Company Secretary informs the Directors of any external training courses which may be of relevance. It is currently considered that the mixture of internal briefings and external training courses satisfies the Directors' training needs, however, this will be reviewed on an ongoing basis.

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

#### Nomination Committee

The Board has an established Nomination Committee to lead the process for board appointments and to make recommendations to the Board. During the period the Nomination Committee comprised Mike Redmond (Chairman), Bryan Morton (resigned 9 July 2012), Dr Chris Richards and Neil Warner. The Chairman would not chair the committee meeting if it was dealing with the appointment of his successor. Details of the work carried out by the Nomination Committee during the financial year have already been detailed in this Report. The Nomination Committee normally meets once a year.

The terms of reference set out the Nomination Committee's role and the authority delegated to it by the Board. The terms of reference have been reviewed during the year, a copy of which is available on the Company website at [www.dechra.com](http://www.dechra.com). They include the following responsibilities:

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

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

## Board Evaluation

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

- The 2010/2011 board evaluation:

The evaluation process was reviewed in detail by the Chairman and the Company Secretary during 2010/2011. It was agreed that, given the number of changes to the Board during the review period, an internal (rather than external) evaluation would be most beneficial to the Company. A detailed discussion document was then developed which included the following areas: (i) board composition; (ii) strategy review process; (iii) the format of board meetings and the decision process; (iv) training and development; (v) the performance of the Board and the individual Directors; (vi) Corporate Governance; (vii) leadership and culture; and (viii) risk assessment. One to one meetings were then held by the Chairman with each of the Executive and Non-Executive Directors and Company Secretary. The evaluation of the Chairman was undertaken by the Senior Independent Director. The findings of the internal evaluation were then discussed with the Board in August 2011 and a number of action points agreed, including the following:

Action	Progress
Requirement for additional resource at Executive Director level	Tony Griffin (Managing Director of DVP EU) has been identified as an additional Executive Director. It is considered that he will strengthen the current Executive team, providing the relevant experience to assist in the development and implementation of the Group strategy
Requirement for focus on Board and senior management succession plans	The HR Director has presented to the Board in respect of the current succession plans and this has been scheduled as a board agenda item every six months
Requirement for the formulation of a Group IT strategy and for a central IT function to be created	Allen Mellor has been appointed as Group IT Director and has carried out a review of the current IT capabilities and requirements within the Group. He is scheduled to present his findings to the Board in the autumn which will provide the basis for the Group IT strategy
Carry out a review of the current PLC meeting schedule to ensure that it utilises the Board's time effectively	The number of PLC meetings has been reviewed in line with the business requirements of the Group. It was agreed to reduce the number of annual meetings from eleven to nine
Carry out a review of the level of information supplied to the Board before each meeting	A review in respect of this is ongoing

- The 2011/2012 board evaluation:

Following discussion it has been agreed to once again carry out a detailed internal evaluation similar in process to the 2010/2011 evaluation. The results of this evaluation will be reported in next year's Report and Accounts. Given the Company's move in June 2012 to the FTSE 250, consideration will be given to the potential additional benefits which could be derived from an externally facilitated review.

## Re-election

At the forthcoming Annual General Meeting, all Directors will retire and offer themselves for re-election. Each of the Directors standing for re-election has been subject to a formal evaluation. Each of the Directors continues to perform effectively and demonstrate commitment, not only in respect of their roles and responsibilities, but also in relation to the Group and its stakeholders. The Board therefore recommends that Shareholders vote in favour of their re-election.

As stated earlier in this report, both Mike Redmond and Neil Warner have served as Chairman and Non-Executive Director respectively for more than nine years. Their performance has been rigorously reviewed and, for the reasons set out previously in this report, it is considered to be in the best interests of the Group and its stakeholders that they continue in office.

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### Accountability

#### Financial Reporting

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

The respective responsibilities of the Directors and the Auditor in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities and the Independent Auditor's Report on pages 80, and 81 to 82 respectively.

#### Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 8 to 39. The principal risks that may affect the Group's future performance are set out on pages 38 and 39.

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

- a £55 million, 4½ years amortising term loan, repayable in eight instalments on 31 March and 30 September each year of £5 million per instalment, rising to £7.5 million per instalment from and including 30 September 2015 with a final instalment of £7.5 million on 31 October 2016. The first repayment is due on 31 March 2013;
- a £65 million 4½ years revolving credit facility committed until 31 October 2016; and
- an overdraft facility of £10 million (currently unutilised) renewable on 1 April 2013.

The Group also had cash balances of £32.4 million at 30 June 2012.

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

#### Internal Control and Risk Management

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

The Group has a well established, ongoing and embedded framework of internal financial and operational control for identifying, evaluating and managing the risks faced by the Group. Every four months the Board carries out a thorough review of relevant risk areas and systems of internal control. The review is structured by business area and key risk strategy and is based upon a summary of information prepared and reviewed by the business units' executive teams on an ongoing basis. This framework has been in place throughout the year under review, and has continued up to the date of approval of the Annual Report.

The Board has reviewed the operation and effectiveness of the internal controls for the year ended 30 June 2012. Further detail in respect of the risks and uncertainties faced by the Group and the mitigating action being taken can be found on pages 38 and 39.

The Group's key systems of control include:

- **Management Structure**

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

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

- **Management Accounting Systems**

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

The finance department maintains a financial policies manual which covers central and divisional management. The manual is reviewed at least annually and is also updated whenever reporting standards, legislation or internal commercial reasons dictate. Any changes to the policies are communicated throughout the Group's finance department. The finance department also schedules a bi-annual internal conference at which a full technical update, tailored specifically to the Group's commercial needs, is presented by the Auditor. This conference did not take place during the 2011/2012 financial year due to time pressures on the management team who were involved in the acquisition of *Eurovet*.

Business unit management certifies on a quarterly basis that key financial controls have been performed and that significant risks have been identified.

- **Business Plans**

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

- **Investment Approval**

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

- **Development Expenditure**

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

- **Whistle-blowing Policy**

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

- **Business Ethics Policy**

In line with the Bribery Act 2010 all current policies have been reviewed in order to ensure compliance with the legislation.

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### Audit Committee and Auditors

Information relating to the Audit Committee is set out in the Audit Committee Report on pages 55 to 58. This details the Company's compliance with the Code's requirements in respect of audit matters.

Responsibility for monitoring the Group's system of internal control rests with the Board. It is assisted by the Audit Committee, which reviews the half-year and annual reports provided to Shareholders, the audit process, the systems of internal control and risk management.

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

### Remuneration

Details of Directors' remuneration are set out in the Directors' Remuneration Report at pages 59 to 70. This report details the Company's compliance with the Code's requirements with regard to remuneration matters.

## Relations with Shareholders

### Dialogue with Institutional Shareholders

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

Tony Griffin will attend a number of the Institutional Shareholder meetings to be held in September 2012, post the announcement of the full year results. This will provide a number of our major Shareholders the chance to meet Tony Griffin before the commencement of his appointment as an Executive Director.

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

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

### Constructive Use of the Annual General Meeting

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