Dechra Limited

Annual Report and Financial Statements

Registered number 04513124

For the year ended 30 June 2023

Contents

Strategic Report

Principal activities

Dechra Limited operates within the following Dechra Pharmaceutical PLC Group's segments:

- Product Development and Regulatory Affairs;
- European Pharmaceuticals which comprises Dechra Pharmaceuticals Manufacturing;
- NA Pharmaceuticals; and
- International Pharmaceuticals.

Product development and regulatory affairs

The Product Development and Regulatory Affairs ("PDRA") team is designated into two functions. The Product Development team develops Dechra's own branded veterinary product portfolio of novel and generic pharmaceuticals. The Regulatory Affairs team obtains licences for our products, manages post-approval adverse event reporting, periodic product renewals and other activities required to maintain the product licences.

The team includes highly qualified academics, veterinarians, formulation chemists, pharmacists, analysts, clinical trial managers and product development managers.

European pharmaceuticals including Dechra Pharmaceuticals manufacturing

The Company generates royalty income from sales of its products through the sales and marketing organisations of its fellow subsidiaries. In addition, Dechra Pharmaceuticals Manufacturing ("DPM") produces a significant proportion of Dechra's pharmaceuticals and also manufactures for third parties on a contract basis. The objectives of manufacturing are to produce Dechra's veterinary pharmaceutical product range efficiently and economically to the highest quality standards, maintain a robust and reliable supply chain for the Group, and to contribute revenue and profit to the Group from third party manufacturing.

The site at Skipton employs 294 people *(2022: 284)*. It offers a comprehensive range of pharmaceutical manufacturing and packing services, principally for Companion Animal Products ("CAP"). The site includes Pharmaceutical Development, Quality Control (QC) and Stability Testing and Validation Laboratories.

NA pharmaceuticals and International pharmaceuticals

The Company generates royalty income from sales of its products through the sales and marketing organisations of its fellow subsidiaries.

Strategic Report *(continued)*

Business review

Key performance indicators

Dechra Limited is appraised as part of the aforementioned Group segments, and accordingly the key performance indicators are as follows;

	2023	2022
	£'000	£'000
Revenue	**137,221**	135,252
Operating profit before product development costs and exceptional costs	**59,975**	57,559
Exceptional costs	**(8,023)**	(3,120)
Product development costs	**(41,953)**	(24,650)
Operating profit	**9,999**	29,789
Operating margin:		
Before product development costs and exceptional costs	**43.7%**	42.6%
After product development costs and before exceptional costs	**13.1%**	24.3%
Revenue per employee (£000)	**415**	420
Inventory days	**225**	147
Receivables days	**27**	63

Review of operating performance

Company performance

The Company achieved revenue growth of 1.5% for the year *(2022: 17.8%)*. The £1,969,000 increase in revenue was contributed from its existing business.

The Company saw a decline in its operating profit after product development costs and before exceptional costs of 45.2% (*2022: growth of 42.0%*) as a result of a significant increase in product development spend to support growth in the future.

The Company achieved a pre-tax profit of £3,456,000, a decrease of £30,886,000 compared to last year driven by the significant increase in product development spend, an increase in the unwind of discount on the contingent consideration balances and a reduction in the amount of dividends received from its subsidiaries.

Strategic Report *(continued)*

Review of operating performance *(continued)*

Financial position at the end of the year

	2023	2022
	£'000	£'000
Non-current assets		
Intangible assets	**214,367**	287,095
Property, plant and equipment	**24,606**	13,857
Investments	**390,045**	140,553
	629,018	441,505
Working capital	**4,707**	20,762
Cash and cash equivalents	**57**	718
Current tax receivable	**7,216**	9,178
Deferred tax asset/ (liability)	**1,489**	(1,690)
Contingent consideration	**(71,058)**	(109,485)
Amounts owed to group undertakings	**(48,896)**	-
Provisions	**(850)**	(850)
Borrowings	**(25,984)**	(36,571)
Net assets	**495,699**	323,567

The financial position at the end of the year was strong with equity shareholders' funds standing at £495,699,000 *(2022: £323,567,000)*.

Working capital is the net position of inventories, trade and other current receivables, prepayments, trade and other current payables and accruals, net of amounts due to/from group undertakings.

Non-current assets increased from £441,505,000 to £629,018,000 driven by the investment in subsidiaries to acquire Piedmont Animal Health Inc. and Med-Pharmex Holdings Inc.

Contingent consideration has decreased from £109,485,000 to £71,058,000 as a result of remeasurements during the year being offset by the unwind of discounting on the balance.

Borrowings have decreased from £36,571,000 to £25,984,000 as a result of the repayment of part of the Company's external RCF borrowing.

Funding

The Company is principally funded by external borrowings, equity funding, loans from the Company's parent and fellow subsidiaries and various hire purchase contracts.

Non-financial key performance indicators

The two non-financial KPIs which the Group 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.

Whilst the Group 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.

	2023	2022
Lost time accident frequency rate	**0.20**	0.51
Employee turnover	**16.92%**	2.85%

The lost time accident frequency rate is per 100,000 hours worked.

In line with the Streamlined Energy & Carbon Reporting (SECR) requirements, the Company energy and carbon information has been included within the Group disclosures of Dechra Pharmaceuticals PLC Annual Report and Accounts for the year ended 30 June 2023.

Strategic Report *(continued)*

Risks and uncertainties

As we have stated in previous reports, the Company, 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 Dechra Pharmaceuticals PLC (Group) Board has ultimate responsibility for risk management within the Company 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 Company as a whole.

The main potential risk areas are as follows:

Risk	Potential Impact	How we mitigate the risk
Failure to deliver major products either due to pipeline delays or newly launched products not meeting revenue expectations.	• A succession of clinical trial failures could adversely affect our ability to deliver shareholder expectations and could also damage our reputation and relationship with veterinarians. • Our market position in key therapeutic areas could be affected, resulting in reduced revenues and profits. • Where we are unable to recoup the costs incurred in developing and launching a product this would result in impairment of intangible assets.	• Potential new development candidates are assessed from a commercial, financial and scientific perspective by a multifunctional team to allow senior management to make decisions on which ones to progress. • The pipeline is discussed regularly by senior management, including the Chief Executive Officer and Chief Financial Officer. Regular updates are also provided to the Group Board. • Each development project is managed by project leaders, who chair project team meetings. • Before costly pivotal studies are initiated, smaller proof of concept pilot studies are conducted to assess the effects of the drug on the target species and for the target indication. • In respect of all new product launches a detailed marketing plan is established and progress against that plan is regularly monitored. • The Company has a detailed market knowledge and retains close contact with customers through its management teams which are trained to a high standard.
Failure to meet regulatory requirements	• Delays in regulatory reviews and approvals could impact the timing of a product launch and have a material effect on sales and margins. • Any changes made to the manufacturing, distribution, marketing and safety surveillance processes of our products may require additional regulatory approvals, resulting in additional costs and/or delays. • Non-compliance with regulatory requirements may result in delays to production or lost sales.	• The Company strives to exceed regulatory requirements and ensures that its employees have detailed experience and knowledge of the regulations. • Manufacturing and PDRA have established quality systems and standard operating procedures in place. • Regular contact is maintained with all relevant regulatory bodies in order to build and strengthen relationships and ensure good communication lines. • The regulatory and quality teams update their knowledge of regulatory developments and complement changes in business procedures to comply with new requirements. • Where changes are identified which could affect our ability to market and sell any of our products, a response team is created in order to mitigate the risk. • External consultants are utilised to audit our manufacturing quality systems.
Inability to maintain supply of key products due to manufacturing, quality or product supply problems	• Raw material supply failures may cause: - increased product costs due to difficulties in obtaining scarce materials on commercially acceptable terms; - product shortages due to manufacturing delays; or - delays in clinical trials due to shortages of trial products. - Shortages in manufactured products and third party supply failures on finished products may result in lost sales.	• The Company monitors the performance of key suppliers and acts promptly to source from alternative suppliers where potential issues are identified. • The top ten products are regularly reviewed in order to identify the key suppliers of materials or finished products. • The Company maintains buffer stocks and dual sourcing arrangements for key products. • All contracts with suppliers are reviewed from both a commercial and legal perspective to try to ensure that assignment of the contract is allowed should there be a change of control of either of the contracting parties. • Processes are in place to monitor and improve product robustness, including Quality and Technical analyses of key products and engagement with internal and external Regulatory stakeholders. • A business continuity plan is in place at Skipton and similar plans are being developed for other sites.

Strategic Report *(continued)*

Principal risks and uncertainties *(continued)*

Information security breach or significant disruption to our IT systems, resulting from a cyber-attack or failure of key IT software or infrastructure.	• Failure to prevent or adequately respond to a data breach or cyber-attack could result in business disruption, fines, loss of personal data or loss of intellectual property/commercially sensitive information. • Software or infrastructure failure could result in significant disruption to operations and management decision making.	• Key systems, including email and ERP, are being migrated to cloud based hosting. Remaining on-premise systems are replicated across dual servers and backed-up. • Disaster and data recovery plans are in place and tested regularly. • Data encryption and multi-factor authentication are employed on mobile devices. • Endpoint protection and intrusion prevention/ detection are in place. • Regular information security and data protection training for employees. • Business interruption and cyber insurance are in place.
Severe weather patterns caused by climate change or natural disaster cause damage to manufacturing or distribution facilities impacting our ability to meet customer demand. In addition, the business will face transition risk, such as carbon pricing, change in raw material pricing and movement to renewable energy sources.	• Damage to our facilities as a result of climate change could impact our ability both to supply and manufacture product, which may weaken customer confidence and impact performance, both over a shorter and longer term. Natural disaster could impact on local employability and the communities in which our sites are based	• The group has committed to setting verifiable targets across the entire value chain through the Science Based Target initiative (SBTi), with a Letter of Intention already submitted. Dechra has also joined the United Nations Framework Convention on Climate Change Race to Zero. • Scenario planning has been conducted for both physical and transition risks to enable us to mitigate climate related risks. • The share of key products manufactured by Dechra, as opposed to CMOs, is being increased in order to manage physical risks better. Dechra has implemented an internal shadow carbon price to bring clarity and to identify climate related opportunities and the best areas to reduce emissions. • Site based ESG committees will be established to manage sustainability, including energy efficiency, renewables and effluent
Failure to resource the business to achieve our strategic ambitions, particularly on geographical expansion and acquisition. As Dechra expands into new markets and acquires new businesses or science, we recognise that we may need additional people with different skills, experience and cultural knowledge to execute our strategy successfully in those markets and business areas. Our growth plans and future success are also dependent on retaining knowledgeable and experienced senior managers and key staff. Increased competition in the market, particularly in specialist roles, challenges the recruitment and retention of key talent and skills.	• Failure to recruit, develop and retain quality people could result in: overstretched resources; weakened succession planning; capability gaps in new markets; or challenges in integrating new acquisitions. This could lead to erosion of our competitive advantage, and delay implementation of our strategy. Rising cost of living challenges and ongoing wage inflation have the potential to impact workforce stability.	• The Chief People Officer reviews the organisational structure with the Group Senior Management Team (SET) and the Group Board twice a year to confirm that the organisation is fit for purpose and to assess the resourcing implications of planned changes or strategic imperatives. • A development programme is in place to identify opportunities to recruit new talent and develop existing potential. A talent acquisition team and applicant tracking software are in place. • Succession plans are in place for the SET together with development plans for key senior managers. • Remuneration packages are reviewed on an annual basis in order to help ensure that the Group can continue to retain, incentivise and motivate its employees.

Strategic Report *(continued)*

Section 172 Statement

This has been detailed within the Directors Report on page 6.

Future developments

In the long term the delivery of further new products and the extension to existing products give confidence in the Company's future prospects.

On behalf of the board

PN Sandland
Director

20 December 2023

Directors' Report

The Directors present their report and audited financial statements for the year ended 30 June 2023.

Principal activities

This have been detailed within the Strategic Report on page 1.

Future developments

These have been detailed within the Strategic Report on page 5.

Post balance sheet events

These have been detailed within the Strategic Report on page 1.

Directors

The directors who were in office during the year and up to the date of signing the financial statements were:

ID Page
PN Sandland
AG Griffin (resigned 27 November 2023)

Employees

We recognise that the success of the Company is dependent on our ability to attract, develop, motivate and retain skilled employees. The Company reports labour turnover as a non-financial KPI and this is measured using the standard formula:

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

It is the Company's policy to provide equal recruitment and other opportunities for all employees, regardless of age, sex, sexual orientation, religion, race or disability. The Company 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 Company's policy whenever practicable to provide continuing employment under the Company's terms and conditions and to provide training and career development whenever appropriate.

Informing and engaging our employees through internal channels of communication is of utmost importance to the Company. We have multiple channels of communication to provide both formal and informal updates including a Dechra Group newsletter that is issued twice a year (following the half-yearly results and the year end results), intranets, management and team meetings. These ensure that our employees are informed of the financial performance of the Company and the Group, as well as the sharing of updates which are relevant to all Company employees such as the introduction of new technology, updates on corporate social responsibility activities, and progress in relation to the Company's strategic objectives. Wherever possible, we seek to engage our employees in change projects. We also have a small number of Works Councils we regularly meet with. Our intranet, OneDechra, includes two way communication encouraging comments, sharing and community participation.

All employees are able to participate in the SAYE Share Option Scheme allowing employees to purchase shares in the ultimate holding company, Dechra Pharmaceuticals PLC. Certain executives and employees can benefit from options granted under the Unapproved Share Option Scheme, the Approved Share Option Scheme and the Long Term Incentive Plan.

Section 172 Statement

The Directors are responsible under section 172 of the Companies Act 2006 for promoting the long term success of the Company for the benefit of its shareholders, and acknowledges that its decisions have a long term impact on other stakeholders, the environment and the Company's reputation for high standards of business conduct. The Directors appreciate that wider engagement with stakeholders is an important component of long term sustainability and success and believes that by engaging with all important stakeholders in a fair manner, the business is made stronger and more resilient.

The section addressing the key risks and uncertainties includes the potential impacts, controls and mitigating actions in connections with our key stakeholders. Our Sustainability strategy is centred around the four pillars of Business, Environment, People and Community, and we believe that effective engagement drives sustainable value for all stakeholders. Further details on the Group's Sustainability strategy can be found in the consolidated accounts of the ultimate parent company, Dechra Pharmaceuticals PLC.

Directors' Report *(continued)*

Section 172 Statement *(continued)*

The table below shows who the Directors have identified as important stakeholders, why they feel it is important to engage, and how they have engaged.

Stakeholder	Why it is important to engage	How we engage	Material interests
Employees	To make Dechra a great and safe place to work, and attract, retain and develop talent	• Group intranet • Town Hall meetings • Engagement surveys • Employee Engagement Designated Non-Executive Director • Performance Development Reviews, and employee development and training	• Development opportunities • Making a difference • Agile and friendly place to work
Veterinary Professionals	To improve animal health and welfare	• Technical support via product information	• Innovative and effective products • Information on correct use of products
Communities	To give back to the communities in which we operate	• Community activities • Donations • Product and local donations • Development and education of young people	• Prosperity within our communities • Community projects and initiatives
Suppliers	To trade with honesty and integrity, and to source quality raw materials, finished products and services	• Quality audits • Due diligence • ABC training • Third Party Code of Conduct	• Fair Payment Terms • Long term relationships
Environment	To minimise our impact on the environment	• Climate impact assessments	• Integrated Group Climate Strategy • Waste management
Regulatory Authorities	To meet high standards of product safety and efficacy	• Regulatory training for employees • Manufacturing facility inspections • Market authorisation applications • Product safety update reports (PSURs)	• Safety • Efficacy • Responsible marketing of regulated pharmaceuticals

The following examples gives an insight on how Directors have considered section 172 factors in their decision making in relation to material transactions during the year:

Directors' Report *(continued)*

Section 172 Statement *(continued)*

Capital Projects

In 2021 the Board approved the first of a three phase development plan at Skipton, and the site has recently embarked on its implementation. The investment of £5.7 million included the expansion of the site footprint through the acquisition and refurbishment of a neighbouring building. This has enabled the site to increase volumes by transferring product previously manufactured at third party contract manufacturers and the introduction of new products. The Group Board considered their section 172 duties in approving the capex, noting that the Skipton site master plan phase 1 project was in line with the manufacturing and supply chain enabler and would affect the following:

- Employees: enable the right flow of traffic and movement of goods on site making employees feel safer, providing an improved environment to perform their roles, in particular the QC department, a better training environment, a better canteen facility, and allows the next step of building the potency suite to further protect our employees from any potential harmful substances;
- Customers: allows the next steps of increasing capacity of the solid dose facility and maintaining the quality of the products through new equipment, improving supply reliability from the Skipton site, particularly with higher throughput testing in the QC laboratory, and creates additional space to bring in more products and be in control of the supply of these products to our customers;
- Shareholders: the improvement in supply reliability will enhance shareholder value through better financial performance and a better reputation in the markets that we operate; and
- Community: improves the traffic flow in the immediate area and provides long term security of the site to the local community.

Spending on this project has continued in the current year and is expected to complete during the year ended 30 June 2024.

Payment to Suppliers

The Company 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 2023, the Company had an average of 85 days *(2022: 51 days)* purchases outstanding in creditors.

Research and Development

The Company 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 Company's competitive position. The expense on this activity for the year ended 30 June 2023 was £41,953,000 *(2022: £24,650,000)*.

Political donations and expenditure

No political donations were made during the year ended 30 June 2023 (2022: £nil). The Company has a policy of not making any donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

Dividends

An interim dividend of £10,000,000 *(2022: £30,000,000)* was declared and paid during the year. Management does not recommend payment of a final dividend.

Financial risk management

The Company uses various financial instruments to manage its financial risk.

Interest rate risk
The Company finances its operations through a mixture of retained profits and where necessary intercompany loans and facilities, and external borrowings. The Company's exposure to interest rate fluctuations on its borrowings is managed by the use of both fixed and floating facilities.

Liquidity risk
The Company seeks to manage liquidity risk by ensuring sufficient liquidity is available to meet its foreseeable needs and to invest cash assets safely and profitably. The Directors review the cash projections on a regular basis to ensure the business has adequate liquidity and working capital.

Credit risk
Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt ageing and collection history.

Directors' Report *(continued)*

Financial risk management *(continued)*

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

Statement of Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, 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 company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' and officers' liability

The Company maintains an appropriate level of directors' and officers' insurance whereby directors are indemnified against liabilities to third parties to the extent permitted by the Companies Act 2006. The Directors also benefitted 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 Company's ultimate parent's registered office (see note 27 for further details).

Going concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements. In reaching this conclusion, the Directors have given due regard to post balance sheet events, the particulars of which can be found in the Strategic report.

Directors' Report *(continued)*

Going concern *(continued)*

On 2 June 2023, the boards of directors of Dechra (the Company's Parent Company) and Freya Bidco Limited (Bidco) announced that they had reached agreement on the terms and conditions of a recommended cash acquisition by Bidco of the entire issued, and to be issued, ordinary share capital of Dechra (the Acquisition). As announced by Dechra on 20 July 2023, the acquisition and its implementation were approved on 20 July 2023 and the Acquisition is expected to complete in early 2024, after the date of approval of these Financial Statements.

The going concern assessment of the Company is therefore subject to uncertainties relating to the potential change in ownership of Dechra and the actual funding requirements and financing arrangements that will be available to the Company post completion. For this reason, the Directors cannot reasonably predict the financial position of the Company post-completion, including the details of any financing arrangements related to the transaction that could affect the Company. This indicates the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. As noted above, the financial statements do however not include the adjustments that would result if the Company were unable to continue as a going concern.

Notwithstanding this uncertainty, based on the circumstances described above, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and the financial statements are prepared on the assumption that the Company is a going concern.

Post balance sheet events

On 20 July 2023, the shareholders of the Dechra Pharmaceuticals PLC (ultimate parent company) voted in favour of the proposed cash offer by Freya Bidco Limited. The pending acquisition of the ultimate parent company is conditional upon respective antitrust approvals or the expiry of the applicable waiting periods in the relevant jurisdictions.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment was approved at the Annual General Meeting.

On behalf of the board

PN Sandland
Director

Snaygill Industrial Estate
Keighley Road
Skipton
North Yorkshire
BD23 2RW

Independent auditors' report to the members of Dechra Limited

Report on the audit of the financial statements

Opinion

In our opinion, Dechra Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of financial position as at 30 June 2023; the Income statement and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern. On 20 July 2023, the shareholders of Dechra Pharmaceuticals PLC ("Dechra"), the ultimate controlling party of the Group, approved the recommended cash acquisition by Freya Bidco Limited of the entire issued, and to be issued, ordinary share capital of Dechra. The acquisition is now expected to complete in early 2024 which is after the date of approval of the entity's financial statements. The going concern assessment of the entity is therefore subject to uncertainties relating to the potential change in ownership of Dechra and the actual funding requirements and financing arrangements that will be available to the company post completion. For this reason, the Directors cannot reasonably predict the financial position of the entity post-completion, including the details of any financing arrangements related to the transaction that could affect the company. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 30 June 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to legislation specific to the industries in which the company operates (including Veterinary Medicines Directorate, European Medicines Agency and U.S. Food & Drug Administration), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006 and Tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure to manipulate the financial performance of the business, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Reading key correspondence with regulatory authorities;
- Reviewing minutes of meetings of those charged with governance;
- Identifying and testing unusual journal entries which increase revenue or reduce expenditure to manipulate the financial performance of the business; and
- Assessing key judgements and estimates made by management for evidence of inappropriate bias.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Mark Skedgel (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Birmingham

20 December 2023

Income statement
for the year ended 30 June 2023

	Note	2023 £'000	2022 £'000
Revenue	2	**137,221**	135,252
Cost of Sales		**(34,157)**	(39,424)
Gross profit		**103,064**	95,828
Distribution costs		**(203)**	(144)
Administrative expenses before exceptional items		**(84,839)**	(62,775)
Exceptional items	4	**(8,023)**	(3,120)
Total administrative expenses		**(92,862)**	(65,895)
Operating profit		**9,999**	29,789
Finance income	5	**7,729**	1
Finance costs	6	**(23,782)**	(12,846)
Income from associated undertakings	7	**9,510**	17,398
Profit before income tax	8	**3,456**	34,342
Tax on profit	9	**2,676**	(2,419)
Profit for the financial year		**6,132**	31,923

All results relate to continuing operations.

There is no other comprehensive income recognised in either the current or preceding year other than the profit for these years.

The notes on pages 18 to 38 form part of these financial statements.

Statement of financial position
as at 30 June 2023

	Note	2023 £'000	2022 £'000
Fixed assets			
Investments	*11*	**390,045**	140,553
Intangible assets	*12*	**214,367**	287,095
Property, plant and equipment	*13*	**24,606**	13,857
		629,018	441,505
Current assets			
Inventories	*15*	**18,152**	13,137
Trade and other receivables	*16*	**54,011**	67,517
Cash at bank and in hand		**57**	718
		72,220	81,372
Creditors: amounts falling due within one year	*17*	**(64,710)**	(56,825)
Net current assets		**7,510**	24,547
Total assets less current liabilities		**636,528**	466,052
Creditors: amounts falling due after more than one year	*18*	**(139,979)**	(139,945)
Provisions	*21*	**(850)**	(850)
Deferred tax liabilities	*22*	**-**	(1,690)
Net assets		**495,699**	323,567
Equity			
Called up share capital	*23*	**301,475**	125,475
Share premium account		**108,386**	108,386
Retained earnings		**85,838**	89,706
Total shareholders' funds		**495,699**	323,567

The notes on pages 18 to 38 form part of these financial statements.

The financial statements on pages 15 to 38 were approved by the Board of Directors on 20 December 2023 and were signed on its behalf by:

PN Sandland
Director

Company number: 04513124

Statement of changes in equity
for the year ended 30 June 2023

	Issued share capital £'000	Share premium account £'000	Retained earnings £'000	Total shareholders' funds £'000
Year ended 30 June 2022				
At 1 July 2021	125,475	108,386	87,783	321,644
Profit for the year	-	-	31,923	31,923
Dividends paid (note 10)	-	-	(30,000)	(30,000)
At 30 June 2022	**125,475**	**108,386**	**89,706**	**323,567**
Year ended 30 June 2023				
At 1 July 2022	125,475	108,386	89,706	323,567
Profit for the year	-	-	6,132	6,132
Capital injection (note 23)	176,000	-	-	176,000
Dividends paid (note 10)	-	-	(10,000)	(10,000)
At 30 June 2023	**301,475**	**108,386**	**85,838**	**495,699**

Hedging Reserve

The hedging reserve represents the cumulative fair value gains or losses on derivative financial instruments for which cash flow hedge accounting has been applied, net of tax.

Notes to the financial statements

1. Principal accounting policies

General information

The Company is incorporated and domiciled in England, UK. The address of the registered office is Snaygill Industrial Estate, Keighley Road, Skipton, North Yorkshire, BD23 2RW, England, UK, and is a private limited company.

Basis of preparation

The financial statements of Dechra Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006, except where IFRSs require an alternative treatment. The principal variations relate to contingent consideration. All accounting policies have been applied consistently across the year unless otherwise stated.

The following exemptions have been taken in preparing the financial statements;

a) The requirements of IFRS 7 'Financial Instruments: Disclosures'

b) The following requirements of IAS 1:

- Paragraphs 10(d) and 111, exempting the Company from providing a cash flow statement and information;
- Paragraph 16, exempting the Company from providing a statement of compliance with all IFRSs;
- Paragraph 38, 'Presentation of financial statements' – comparative information requirements in respect of:
  - Paragraph 73E of IAS 16, 'Property, plant and equipment'; and
  - Paragraph 118E of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period);
- Paragraph 38A, exempting the Company from the requirement for a minimum of two of each primary statement and the related notes;
- Paragraph 38B to D, exempting the Company from the requirement to present additional comparative information;
- Paragraphs 134 to 136, exempting the Company from presenting Capital Management disclosures; and

c) The requirements of IAS 7 'Statement of Cash Flows', exempting the Company from preparing a cash flow statement

d) The requirements of paragraph 17 of IAS 24 'Related Party Disclosures', exempting the Company from disclosing details of all key management compensation.

e) The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions with wholly-owned members of the Group.

f) The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' exempting the company from disclosing the impact of new accounting standards that have been issued but are not yet effective.

The directors intend that the Company will take advantage of the above disclosure exemptions for the year ended 30 June 2024.

Consolidation

The Company is a wholly owned subsidiary of Dechra Investments Limited, a company incorporated in the United Kingdom and of its ultimate parent, Dechra Pharmaceuticals PLC. It is included in the consolidated financial statements of Dechra Pharmaceuticals PLC which are publicly available. Therefore the company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

Notes to the financial statements *(continued)*

1. Principal accounting policies *(continued)*

Going concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements. In reaching this conclusion, the Directors have given due regard to post balance sheet events, the particulars of which can be found in the Strategic report.

On 2 June 2023, the boards of directors of Dechra (the Company's Parent Company) and Freya Bidco Limited (Bidco) announced that they had reached agreement on the terms and conditions of a recommended cash acquisition by Bidco of the entire issued, and to be issued, ordinary share capital of Dechra (the Acquisition). As announced by Dechra on 20 July 2023, the acquisition and its implementation were approved on 20 July 2023 and the Acquisition is expected to complete in early 2024, after the date of approval of these Financial Statements.

The going concern assessment of the Company is therefore subject to uncertainties relating to the potential change in ownership of Dechra and the actual funding requirements and financing arrangements that will be available to the Company post completion. For this reason, the Directors cannot reasonably predict the financial position of the Company post-completion, including the details of any financing arrangements related to the transaction that could affect the Company. This indicates the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. As noted above, the financial statements do however not include the adjustments that would result if the Company were unable to continue as a going concern.

Notwithstanding this uncertainty, based on the circumstances described above, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and the financial statements are prepared on the assumption that the Company is a going concern.

New standards, amendments and IFRIC

A number of amendments to IFRSs became effective for the financial year beginning on 1 July 2022. The Company has applied the amendments to IAS1, Practice Statement 2, IAS8 and IAS12 (deferred tax related to assets and liabilities arising from a single transaction and International tax reform pillar 2 model rules). None of these amendments had any impact on the Company's accounting policies and did not require retrospective adjustments.

Significant accounting estimates and judgements

There are no significant judgements. The key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing material adjustment to the carrying values of the assets and liabilities within the next financial year, are summarised below.

Valuation of Licensing Agreements and associated Contingent Considerations

The recognition of intangible assets and associated contingent considerations in respect of licensing agreements are recorded initially at fair value. This is based on management's best estimate of the timing, likelihood and quantum of future cash flows discounted at an appropriate discount rate.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation is calculated using the straight line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Freehold buildings	- 25 years
Short leasehold property	- Period of the lease
Fixtures, fittings and equipment	- 3 to 10 years
Motor vehicles	- 4 years

1. Principal accounting policies *(continued)*

Property, plant and equipment *(continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Administrative Expenses' in the income statement.

Intangible assets

Goodwill

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

Acquisitions after this date fall under the provisions of 'IFRS 3 Business Combinations'. For these acquisitions, transaction costs, other than share and debt issue costs, are expensed as incurred and subsequent adjustments to the fair value of consideration payable are recognised in the income statement.

Contingent consideration is measured at fair value based on an estimate of the expected future payments.

Goodwill is stated at cost less any accumulated impairment losses.

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 Company is also engaged in development activity with a view to bringing new pharmaceutical products to market. 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 Company 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.

Internally generated costs of development are capitalised, once the criteria are met, in the statement of financial position unless those costs cannot be measured reliably or it is not probable that future economic benefits will flow to the Company, in which case the relevant costs are expensed to the income statement as incurred.

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.

Other Intangible Assets

Other intangible assets that are acquired by the Group are stated at cost (including future milestone and royalty payments as applicable) less accumulated amortisation and impairment losses. Expenditure on other intangibles is recognised in the income statement as an expense is incurred.

Intangible Assets 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 or extends the asset life. All other expenditure is expensed as incurred.

Notes to the financial statements *(continued)*

1. Principal accounting policies *(continued)*

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 or is otherwise stated below. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each consolidated statement of financial position date. Intangible assets are amortised from the date that they are available for use.

The estimated useful lives are as follows:

Software	- 5 to 7 years
Capitalised development costs	- 5 to 10 years or period of patent
Patent rights	- Period of patent
Marketing authorisations	- Indefinite life or period of marketing authorisation
Product rights	- 10 to 15 years

The amortisation of the intangible assets are classified as an administrative expense because they relate to the right to sell and distribute the product.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand. In the statement of financial position bank overdrafts are shown within borrowings in current liabilities.

Impairment of non-financial assets

Non-financial assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which

Impairment of non-financial assets

there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Investments in subsidiaries

Investments in subsidiaries are held at cost less accumulated impairment losses.

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 determined 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.

Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges. All other foreign exchange gains and losses are presented in the income statement within 'Finance income' and 'Finance costs'.

Current and deferred income tax

The income tax expense or credit for the year is the tax payable or receivable on the current year's taxable income, based on the applicable income tax rate for the UK, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting year.

Notes to the financial statements *(continued)*

1. Principal accounting policies *(continued)*

Current and deferred income tax *(continued)*

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting year and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Trade and other receivables

Trade and other receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Revenue Recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The primary performance obligation is the transfer of goods to the customer. Revenue from the sale of goods is recognised when control of the goods is transferred to the customer, at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods.

As sales arrangements differ from time to time (for example by customer and by territory), each arrangement is reviewed to ensure that revenue is recognised when control of the goods have passed to the customer.

This review and the corresponding recognition of revenue encompasses a number of factors which include, but are not limited to the following:

- reviewing delivery arrangements and whether the buyer has accepted title – we recognise the revenue at the point at which full title has passed; and/or
- where distribution arrangements are in place, recognising when the goods pass to the third party customer (for example by reviewing insurance arrangements) and recognising revenue at the point at which title has passed.

Provision for rebates, returns, discounts and other variable consideration is reflected in the transaction price at the point of recognition to the extent that it is highly probable there will not be a significant reversal. The methodology and assumptions used to estimate rebates and returns are based on the most likely method of calculation. This is adjusted in light of contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using wholesaler and other third party analysis, and internally generated information.

Employee Benefits

Pensions

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The contributions are recognised as employee benefit expense when they are due through the income statement.

Notes to the financial statements *(continued)*

1. Principal accounting policies *(continued)*

Share-based payments

The Company operates a number of equity settled share-based payment programmes that allow employees to acquire shares in Dechra Pharmaceuticals PLC. The awards are granted by Dechra Pharmaceutical PLC and the Company has no obligation to settle the awards. The fair value of shares or options granted is recognised as an employee expense over the vesting period on a straight-line basis in the income statement. Fair values are determined by use of an appropriate pricing model and by reference to the fair value of the options granted. The fair values for shares or options granted are determined on either the Black-Scholes Option Pricing Model or a Monte Carlo Simulation Model, as performed by a qualified third party valuation expert.

Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or, in the case of an interim dividend, when the dividend is paid.

Leases

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The lease liability is not materially sensitive to a reasonable change in discount rate and therefore does not represent a critical accounting estimate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short term leases are leases with a lease terms of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Financial guarantee contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other group companies, 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.

Net Financing Costs

Net financing costs comprise interest payable on borrowings, unwinding of discount on deferred considerations measured at amortised cost 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.

Notes to the financial statements *(continued)*

1. Principal accounting policies *(continued)*

Contingent Considerations

The Group's accounting for contingent consideration in respect of the acquisition of intangible assets in the form of licensing agreements where the product has not been registered and launched in all key markets is consistent with the principles of IFRS 3 and IFRIC 1. The contingent consideration is initially and subsequently measured at fair value. Subsequent fair value movements in remeasuring the contingent consideration related to changes in the cost of debt and foreign exchange are recognised as finance expenses in the income statement. All other movements are considered related to the utility of the asset and therefore are adjusted against the cost of the asset. For licensing agreements where the product has been registered and launched in all key markets, an intangible asset is initially recognised, at the date of acquisition, at the cost paid. Variable payments (normally in the form of sales based royalties to another third party) are recognised as an expense in cost of sales as the sales are made.

Exceptional Items

Exceptional items include items such as non-recurring expenses relating to acquisition related expenses, cloud computing costs and the remeasurement of contingent consideration. Management utilise this measure to isolate the impact of exceptional, one-off or non-trading related items and consequently the classification of these items requires judgement.

2. Revenue

The origin of all revenue was in the UK and an analysis of revenue by geography is:

	2023	2022
	£'000	£'000
Destination:		
UK	**53**	2,255
USA	**60,266**	60,256
Europe	**68,403**	65,412
Rest of world	**8,499**	7,329
	137,221	135,252

Revenue can be broken down by revenue stream as follows; Contract manufacturing revenue £8,431,000 *(2022: £2,575,000)*, Sale of finished products to affiliates for resale £114,076,000 *(2022: £119,752,000)*, Other £14,714,000 *(2022: £12,925,000)*.

3. Employees and directors

The monthly average number of persons employed during the year was:

	Number of employees	
	2023	2022
Manufacturing	**184**	192
Distribution	**30**	25
Buying, sales and marketing and administration	**117**	105
	331	322

The aggregate payroll costs of those persons were:

	2023	2022
	£'000	£'000
Wages and salaries	**13,246**	12,316
Share-based payments	**1,130**	873
Social security costs	**1,470**	1,281
Other pension costs	**1,061**	980
	16,907	15,450

3. Employees and Directors *(continued)*

The Directors received no remuneration for their services to the company (2022: £nil). Their remuneration for services to Dechra Pharmaceuticals PLC, the ultimate Parent Company of the Group, are shown in the consolidated financial statements of that Group.

The remuneration of the directors of the Company is paid by the parent company which makes no recharge to the Company. The directors of the Company are also directors of the parent company and a number of fellow subsidiaries, and it is not possible to make an accurate apportionment of their remuneration in respect of each of the subsidiaries. Accordingly, the above details include no remuneration in respect of the directors of the Company. Their total remuneration is included in the aggregate of directors' remuneration disclosed in the financial statements of the parent company.

4. Exceptional items

	2023	2022
	£'000	£'000
Remeasurement of contingent consideration	**(867)**	-
Acquisition and subsequent integration costs	**531**	311
Cloud computing arrangements	**8,359**	2,809
Total exceptional items	**8,023**	3,120

Cloud computing arrangement costs of £8.4 million relate to the initial costs of the programme to implement the Manufacturing and Supply function's new ERP and Electronic Quality Management systems, the total future cost of which is expected to be £23.9 million over the next four years.

Expenses relating to acquisitions and subsequent integration activities represent costs incurred during the acquisition of Piedmont Animal Health, Inc. and Med-Pharmex, Inc.

The remeasurement of contingent consideration balance of £867,000 relates to the net credit to the income statement of future milestones and royalty payments on licensing agreements.

5. Finance income

	2023	2022
	£'000	£'000
Inter-company interest receivable	**40**	1
Foreign exchange gains	**7,549**	-
Other interest	**140**	-
Total finance income	**7,729**	1

6. Finance costs

	2023	2022
	£'000	£'000
External bank interest	**1,153**	670
Foreign exchange loss	**-**	8,759
Inter-company interest payable	**2,432**	28
Unwinding of discount on contingent consideration	**20,073**	3,362
Lease interest	**124**	27
Total finance costs	**23,782**	12,846

Notes to the financial statements *(continued)*

7. Income from associated undertakings

The company received three dividends during the financial year. A dividend was received from Dechra Veterinary Products Sp. z.o.o. in November 2022, amounting to £366,000 *(2022: £365,000)*, a dividend was received from Dechra Veterinary Products Srl in December 2022, amounting to £1,038,000 *(2022: £nil)* and a dividend was received from Dechra Holdings Australia Pty Limited in April 2023 amounting to £8,106,000 *(2022: £nil)*. No dividends were received from Dechra Holdings US Inc in the year *(2022: £17,033,000)*.

8. Profit before income tax

	2023	2022
	£'000	£'000
Profit before taxation is stated after charging		
Cost of inventories recognised as an expense	**15,643**	19,692
Depreciation of property, plant and equipment		
- owned assets	**1,256**	1,148
- leased assets	**460**	369
Product and patent rights amortisation (included within administrative expenses)	**24,824**	20,792
Amortisation of other intangible assets (included within administrative expenses)	**386**	336
Research and development	**41,953**	24,650
Loss on disposal of property, plant and equipment	**-**	2
Loss on disposal of leased assets	**4**	669
Loss on disposal of intangible assets	**22**	-

Amounts receivable by the Company's auditors in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is instead disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent, Dechra Pharmaceuticals PLC. Auditors' remuneration for audit work of £22,000 *(2022: £20,000)* has been borne by the ultimate parent undertaking in both years and not recharged to the Company.

9. Tax on profit

Tax (credit)/expense included in income statement

	2023	2022
	£'000	£'000
Current tax		
UK Corporation tax on profits for the year	**-**	1,126
Foreign tax suffered	**276**	-
Adjustments to the tax expense in respect of prior periods	**227**	441
Total current tax	**503**	1,567
Deferred tax		
Origination and reversal of timing differences	**(2,016)**	818
Effect of rate change	**(443)**	201
Adjustment in respect of prior periods	**(720)**	(167)
Total deferred tax	**(3,179)**	852
Income tax on profit	**(2,676)**	2,419

The tax expense is lower *(2022: lower)* than the standard rate of corporation tax in the UK of 20.5% *(2022: 19.0%)*. The differences are explained below:

Notes to the financial statements *(continued)*

9. Tax on profit *(continued)*

	2023	2022
	£'000	£'000
Profit before income tax	**3,456**	34,342
Profit before income tax multiplied by standard rate of corporation tax in the UK of 20.5% (2022: 19%)	**708**	6,525
Effects of:		
Expenses not deductible	**170**	127
Income not taxable	**(2,490)**	(3,536)
Research and development	**-**	(9)
Patent box relief	**(404)**	(1,163)
Foreign tax suffered	**276**	-
Effect of rate change	**(443)**	201
Adjustments to the tax expense in respect of prior periods	**(493)**	274
Total income tax (credit)/expense	**(2,676)**	2,419

UK Finance Act 2021 was substantively enacted on 24 May 2021, including an increase in main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023.

10. Dividends paid

	2023	2022
	£'000	£'000
On ordinary shares of £1 each		
Dividend Paid: £0.03 per share in issue at payment date (2022: £0.24)	**10,000**	30,000

11. Investments

Shares in group undertakings	**2023**	2022
	£'000	£'000
At 1 July - cost and net book value	**140,553**	140,473
Additions	**249,492**	80
At 30 June - cost and net book value	**390,045**	140,553

During the year, the company has made an investment of £1,832,000 into Dechra Veterinary Products Suisse GmbH, £246,930,000 into Dechra Holdings US Inc and £730,000 Dechra Veterinary Products Korea Yuhan Hoesa.

Notes to the financial statements *(continued)*

11. Investments *(continued)*

The subsidiaries of the company:

Company	Country of incorporation	Principal activity	Registered office	Shareholder
Dechra Veterinary Products Srl	Italy	Marketer of veterinary pharmaceuticals	Via Agostino da Montefeltro 2, 10134 Torino, Italy	Dechra Limited
Dechra Veterinary Products, Inc.	Canada	Marketer of veterinary pharmaceuticals	100 King Street West, Suite 6100, 1 First Canadian Place, Toronto ON M5X 1B8, Canada	Dechra Limited
Dechra Veterinary Products Sp. z.o.o.	Poland	Marketer of veterinary pharmaceuticals	1st Floor, 61 Moldinska Str., 03-199 Warsaw, Poland	Dechra Limited
Dechra Veterinary Products GmbH	Austria	Marketer of veterinary pharmaceuticals	Hintere Achmhlerstrasse 1a, 6850 Dornbirn, Austria	Dechra Limited
Dechra Veterinary Products Korea Yuhan Hoesa	Korea	Marketer of veterinary pharmaceuticals	4, 5th Floor, Royal Building, 19, Saemunan-ro 5-gil, Jongno-gu, Seoul	Dechra Limited
Dechra Productos Veterinarios, S.A. de C.V.	Mexico	Developer, regulatory affairs, and marketer of veterinary products	Principal Place of Business, Campus Corporativo Coyoacán Avenida Coyoacán número 1622 Colonia Del Valle C.P. 03100 Delegación Benito Juárez Ciudad de México Mexico.	Dechra Limited
Dechra Holdings US Inc	USA	Holding company	Principal Place of Business, 7015 College Blvd, Suite 525, Overland Park KS 66211, United States	Dechra Limited
Dechra Holding Australia Pty Ltd	Australia	Holding company	2 Cal Close, Somersby, NSW 2250, Australia	Dechra Limited
Dechra Veterinary Products Suisse GmbH	Switzerland	Holding Company	Barfüsserplatz 3 4051 Basel, Switzerland	Dechra Limited
Dechra Finance Australia Limited	UK	Financial Services	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Limited
Dechra Finance Ireland Designated Activity Company	Ireland	Financial Services	6th Floor, 2 Grand Canal Square, Dublin 2, Ireland	Dechra Limited
Dechra Veterinary Products NZ Limited*	New Zealand	Marketer of veterinary pharmaceuticals and distributor of veterinary pharmaceutical and equipment	TMF Group, Level 11, 41 Shortland Street, Auckland, 1010, New Zealand	Dechra Holding Australia Pty Ltd
Dechra Veterinary Products (Australia) Pty Ltd*	Australia	Developer, regulatory affairs, and marketer of veterinary products	2 Cal Close, Somersby, NSW 2250, Australia.	Dechra Holding Australia Pty Ltd
Dechra Veterinary Products, LLC*	USA	Marketer of veterinary pharmaceuticals and pet diets	Principal Place of Business, 7015 College Blvd, Suite 525, Overland Park KS 66211, United States	Dechra Holdings US Inc

Notes to the financial statements *(continued)*

11. Investments *(continued)*

Dechra Development LLC*	USA	Contract regulatory and product development services.	Principal Place of Business, 7015 College Blvd, Suite 510, Overland Park KS 66211, United States	Dechra Holdings US Inc
Ampharmco, LLC*	USA	Manufacturer of veterinary pharmaceuticals	1401 Joel East Road, Fort Worth, TX76140-6003, United States	Dechra Holdings US Inc
Dragon Fire Holdings, LLC*	USA	Holding company	1401 Joel East Road, Fort Worth, TX76140-6003, United States	Dechra Holdings US Inc
Black Griffin Holdings, LLC*	USA	Holding company	1401 Joel East Road, Fort Worth, TX76140-6003, United States	Dechra Holdings US Inc
Med-Pharmex Holdings, Inc*	USA	Holding Company	Principal Place of Business, 7015 College Blvd, Suite 525, Overland Park KS 66211, United States	Dechra Holdings US Inc
DermaPet, Inc*	USA	Non-trading	Principal Place of Business, 7015 College Blvd, Suite 525, Overland Park KS 66211, United States	Dechra Veterinary Products, LLC
Piedmont Animal Health Inc*	USA	Non-trading	Principal Place of Business, 7015 College Blvd, Suite 510, Overland Park KS 66211, United States	Dechra Veterinary Products LLC
Med-Pharmex Property LLC*	USA	Property Company	Principal Place of Business: 7015 College Blvd, Suite 525, Overland Park, KS, 66211, United States	Med-Pharmex Holdings, Inc
Med-Pharmex, Inc*	USA	Developer, regulatory and manufacturer of veterinary pharmaceuticals	Principal Place of Business: 7015 College Blvd, Suite 525, Overland Park, KS, 66211, United States	Med-Pharmex Holdings, Inc
Cephazone Pharma LLC*	USA	Developer, regulatory and manufacturer of veterinary pharmaceuticals	Principal Place of Business: 7015 College Blvd, Suite 525, Overland Park, KS, 66211, United States	Med-Pharmex, Inc

With the exception of Dechra Productos Veterinarios, S.A. de C.V. (99.9%), all the above related undertakings are 100% owned by the company. For those marked with *, these are indirectly owned through other related undertakings within the list.

Notes to the financial statements *(continued)*

12. Intangible assets

	Product rights	Patent rights & marketing authorisations	Goodwill	Development costs	Software	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 July 2022	319,654	2,167	13,447	8,987	518	344,773
Additions	1,405	-	-	321	-	1,726
Disposals	-	(22)	-	(495)	(9)	(526)
Remeasurement of deferred consideration	(48,851)	-	-	-	-	(48,851)
At 30 June 2023	**272,208**	**2,145**	**13,447**	**8,813**	**509**	**297,122**
Accumulated amortisation						
At 1 July 2022	43,223	263	6,227	7,483	482	57,678
Charge for the year	24,824	42	-	322	24	25,212
Disposals	-	-	-	(126)	(9)	(135)
At 30 June 2023	**68,047**	**305**	**6,227**	**7,679**	**497**	**82,755**
Net book value						
At 30 June 2023	**204,161**	**1,840**	**7,220**	**1,134**	**12**	**214,367**
At 30 June 2022	276,431	1,904	7,220	1,504	36	287,095

Goodwill is not amortised.

Product rights include;

- marketing and distribution rights in relation to a licensing agreement with Animal Ethics for Tri-Solfen (excluding ANZ territories) amounting to £14.7 million. This has been remeasured during the year, and has a remaining amortisation period of 10 years.
- marketing and distribution rights in Australian and New Zealand for Tri-Solfen in relation to a licensing agreement with Animal Ethics amounting to £20.5 million. This has been remeasured during the year, and has a remaining amortisation period of 13 years.
- marketing and distribution rights in relation to two separate injectable solution licensing agreements amounting to £5.6 million and £5.2 million. These have been remeasured during the year, and have a remaining amortisation period of 9 years and 15 years respectively.
- worldwide rights to the Mirataz product portfolio amounting to £29.5 million. This has been remeasured during the year, and has a remaining amortisation period of 7 years.
- worldwide rights to the Osurnia product portfolio amounting to £75.2 million. This has been remeasured during the year, and has a remaining amortisation period of 7 years.
- worldwide rights to the Laverdia product portfolio amounting to £30.6 million. This has been remeasured during the year, and has a remaining amortisation period of 10 years.
- worldwide rights to the Isoflurance and Sevoflurane product portfolio amounting to £7.6 million. This has a remaining amortisation period of 8.5 years.
- worldwide rights to the Sucromate product portfolio amounting to £5.4 million. This has a remaining amortisation period of 8.5 years.

Notes to the financial statements *(continued)*

12. Intangible assets (continued)

The marketing authorisations, included in patent rights and marketing authorisations at a cost of £0.9 million, are not amortised. £0.8 million of the marketing authorisations relate to the Vetivex range of products. Ownership of the marketing authorisations rest 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.

13. Property, plant and equipment

	Freehold land	Freehold buildings	Short leasehold property	Motor Vehicles	Fixture, fittings and equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 July 2022	13	6,053	5,585	257	15,443	27,351
Additions	-	-	4,635	302	7,531	12,468
Disposals	-	-	(598)	(89)	(958)	(1,645)
At 30 June 2023	**13**	**6,053**	**9,622**	**470**	**22,016**	**38,174**
Accumulated depreciation						
At 1 July 2022	-	201	4,359	134	8,800	13,494
Charge for the year	-	242	564	117	792	1,715
Disposals	-	-	(598)	(87)	(956)	(1,641)
At 30 June 2023	-	443	**4,325**	**164**	**8,636**	**13,568**
Net book value						
At 30 June 2023	**13**	**5,610**	**5,297**	**306**	**13,380**	**24,606**
At 30 June 2022	13	5,853	1,225	123	6,644	13,857
Net book value of right-of-use						
At 30 June 2023	**-**	**-**	**5,123**	**305**	**20**	**5,448**
At 30 June 2022	-	-	918	123	49	1,090

Included in additions are £4,937,000 *(2022: £257,000)* of right-of-use assets.

Notes to the financial statements *(continued)*

14. Impairment reviews

Goodwill

The Goodwill asset and marking authorisations are tested for impairment annually, or more frequently if there are indications that amounts might be impaired. The impairment test involves determining the recoverable amount 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.

The carrying value of Goodwill represents an historic balance raised predominantly on the acquisition of the trade and assets of the Skipton site. On assessing the carrying value of goodwill, we have considered the profitability of the Dechra Limited owned IP products that are manufactured in Skipton. This shows considerable headroom on the valuation of the goodwill asset and therefore we are comfortable that there is not an impairment.

Intangible assets

Intangible assets that are being amortised are reviewed for indicators of impairment annually, and in the event that impairment indicators exist, a full value in use calculation is performed. A review was performed to establish that the carrying value of individual products capitalised are reflective of the projected cash flow generation and that no impairment indicators exist. No impairment was recognised on these assets.

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.

Investments

An impairment assessment was performed on three of the Company's investments in subsidiary companies using a value in use calculation after meeting the trigger assessment criteria. The cash flow forecasts for these assessments were based on a board approved business plan for four years, and a growth rate of 3.0% applied for the fifth year. Thereafter, a terminal value is calculated based on year five cash flows, and assuming long term growth rates of 1.7%-4.9%. The projections covered a period of five years as we believe this to be the most appropriate timescale over which to review and consider annual performances before applying a fixed terminal value.

The key assumptions implicit in the impairment reviews are those regarding the Board approved business plan, medium and long term growth rates and the discount rate. The Board approved business plan incorporates a number of key input assumptions, most notably regarding market growth expectations, the competitive and legislative environments, lifecycle management, selling prices, product margins and direct costs. The assumptions applied in the business plan are based on past experience and the Company's expectation of future market changes and, where applicable, are consistent with external sources of information.

Pre-tax discount rates of 11.5%-13% have been estimated using a market participant rate, which is adjusted after consideration of market information, and risk adjusted dependent upon the specific circumstances of each asset or cash generating unit.

We have performed sensitivity analyses around the key assumptions and have concluded that no reasonable changes in key assumptions would cause the recoverable amount to be less than the carrying value.

15. Inventories

	2023	2022
	£'000	£'000
Raw materials and consumables	**10,947**	7,786
Work in progress	**871**	1,947
Finished goods and goods for resale	**6,334**	3,404
	18,152	13,137

There is no significant difference between the replacement cost of work in progress and finished goods and goods for resales and their carrying amounts.

Inventories are stated after provisions for impairment of £3,903,000 *(2022: £2,228,000)*.

Notes to the financial statements *(continued)*

16. Trade and other receivables

	2023	2022
	£'000	£'000
Trade and other receivables due within one year		
Trade receivables	**144**	299
Amounts owed by group undertakings	**42,604**	55,117
Corporation tax receivable	**7,216**	9,178
Other receivables	**1,435**	537
Other taxation and social security	**88**	871
Prepayments and accrued income	**1,035**	1,515
Trade and other receivables due after more than one year		
Deferred tax asset (note 22)	**1,489**	-
	54,011	67,517

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayments and are repayable on demand. The credit loss provision against amounts owed by Group undertakings is £nil *(2022: £nil)*. Where the amounts due from group undertakings are repayable on demand they are calculated using the expected loss model.

Trade receivables are stated after provisions for impairment of £nil *(2022: £nil)*.

17. Creditors: amounts falling due within one year

	2023	2022
	£'000	£'000
Trade payables	**7,941**	5,506
Amounts owed to group undertakings	**44,107**	37,455
Other creditors	**213**	164
Other taxation and social security	**-**	14
Accruals	**7,993**	7,575
Contingent consideration (note 20)	**3,943**	5,900
Borrowings (note 19)	**513**	211
	64,710	56,825

Amounts owed to group undertakings are unsecured, have no fixed date of repayments and are repayable on demand. Of this balance £22,443,000 *(2022: £18,180,000)* attracts interest of 0.837% above Risk Free Reference (RFR) rate and the remaining balance is interest free.

18. Creditors: amounts falling due after more than one year

	2023	2022
	£'000	£'000
Amounts owed to group undertakings	**47,393**	-
Contingent consideration (note 20)	**67,115**	103,585
Borrowings (note 19)	**25,471**	36,360
	139,979	139,945

Amounts owed to group undertakings are unsecured, attract interest of 5.35%, and are repayable in August 2030.

The contingent consideration are reviewed annually and expected to unwind by 2042 *(2022: 2042)*.

Notes to the financial statements (continued)

19. Borrowings

	2023	2022
	£'000	£'000
Borrowings due within one year		
Lease liabilities	**513**	211
Borrowings due after more than one year		
Aggregate bank loan and lease liabilities instalments repayable:		
- between one and two years	**456**	171
- between two and five years	**21,949**	36,103
- over five years	**3,066**	86
	25,984	36,571

On 31 March 2023, the Group entered into a new multi-currency Revolving Credit Facility Agreement ("RCF") in the maximum amount of £340.0 million and maturing 31 March 2028. This RCF is provided by a syndicate of banks comprising BNP Paribas, CaixaBank SA UK branch, Crédit Industriel et Commercial, London Branch, Handelsbanken Capital Markets, Handelsbanken plc, HSBC UK Bank plc, PNC Capital Markets LLC, Santander UK plc and The Governor and Company of the Bank of Ireland. The covenant requirements in the RCF remain unchanged from the prior Revolving Credit Facility Agreement (being Interest Cover in respect of any Relevant Period shall not be less than 4:1 and Leverage in respect of any Relevant Period shall not exceed 3:1). The RCF uses Risk Free Reference (RFR) rates, with the relevant RFR rates for the principal Borrowings of the Company being SONIA (for Borrowings in GBP), SOFR (for Borrowings in USD) and EURIBOR (for Borrowings in EUR). The interest rate charged on any new Borrowings drawn under the RCF will be the relevant RFR rate plus the Margin. The Margin on the RCF is a minimum of 1.40% and a maximum of 2.30%, dependent upon the Leverage (the ratio of Adjusted Net Debt to Adjusted underlying EBITDA) of the Group. At 30 June 2023, £21.0 million was drawn by the Company. The facility is not secured on any specific assets of the Group but is supported by a joint and several cross guarantee structure. All covenants were met during the year ended 30 June 2023.

The maturity of the bank loans is as follows:

	2023	2022
	£'000	£'000
Between two and five years	**21,000**	36,000
	21,000	36,000

The maturity of the lease liabilities is as follows:

	2023	2022
	£'000	£'000
Within one year	**513**	211
Between one and two years	**456**	171
Between two and five years	**949**	103
Over five years	**3,066**	86
	4,984	571

Notes to the financial statements *(continued)*

20. Contingent consideration liabilities

The contingent consideration liabilities are attributable to the following:

	2023	2022
	£'000	£'000
Contingent consideration - less than one year	**3,943**	5,900
Contingent consideration - more than one year	**67,115**	103,585
Total contingent consideration liabilities	**71,058**	109,485

The consideration for certain acquisitions and licensing agreements includes amounts contingent on future events such as development milestones or sales performance. The Company has provided for the fair value of this contingent consideration as follows:

	Tri-Solfen	**Injectable solution 1**	**Mirataz**	**Phycox**	**Laverdia**	***Other***	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	***£'000***	**£'000**
At 1 July 2022	56,234	1,623	14,422	1,157	-	3,669	77,105
Additions	-	-	-	-	57,868	2,668	60,536
Remeasurement through intangibles	(12,065)	(4)	(2,884)	288	(7,884)	(141)	(22,690)
Cash	(14,585)	(797)	(708)	(806)	-	(1,978)	(18,874)
Finance expense	1,521	54	443	46	1,163	135	3,362
Foreign exchange adjustments	1,480	211	1,764	126	6,345	120	10,046
At 30 June 2022	32,585	1,087	13,037	811	57,492	4,473	109,485
Additions	-	-	-	-	-	798	798
Remeasurement through intangibles	(13,627)	46	(4,891)	(163)	(28,176)	(2,040)	(48,851)
Remeasurement through income statement	(867)	-	-	-	-	-	(867)
Cash	(2,208)	(566)	(1,728)	(734)	(69)	(767)	(6,072)
Finance expense	8,709	108	2,622	63	7,288	1,283	20,073
Foreign exchange adjustments	(1,942)	(15)	(441)	23	(1,208)	75	(3,508)
At 30 June 2023	**22,650**	**660**	**8,599**	**-**	**35,327**	**3,822**	**71,058**

Notes to the financial statements *(continued)*

20. Contingent consideration liabilities (continued)

The table below shows on an indicative basis the sensitivity to reasonably possible changes in key inputs to the valuations of the contingent consideration liabilities. There will be a corresponding opposite impact on the intangible asset.

	Tri-Solfen	Injectable Solution 1	Mirataz	Phycox	Laverdia	Other
Increase /(decrease) in financial liability						
10% increase in royalty forecasts (£m)	1.8	N/A	0.8	-	1.2	0.1
10% decrease in royalty forecasts (£m)	(1.8)	N/A	(0.9)	-	(1.2)	(0.1)
1% increase in discount rates (£m)	(1.3)	-	(0.3)	-	(1.6)	(0.1)
1% decrease in discount rates (£m)	1.4	-	0.3	-	1.7	0.1
5% appreciation in currency (£m)	(1.1)	-	(0.4)	-	(1.7)	(0.2)
5% depreciation in currency (£m)	1.2	-	0.5	-	1.9	0.2
Discount rate range in 2023	6.5% - 21.0%	12.7%	10.1% - 10.8%	-	6.5% - 18.8%	11.0% - 12.7%
Discount rate range in 2022	5.2% - 25.0%	11.6%	7.3% - 9.4%	11.6%	5.1% - 14.6%	10.2% - 11.6%
Cash outflow in relation to royalties (remaining term of royalty agreement)						
2023 £m (years)	39.5 (13.0)	N/A	13.6 (7.5)	-	7.2 (15.0)	0.3 (4.0)
2022 £m (years)	50.4 (14.0)	N/A	19.8 (8.5)	0.9 (1.0)	51.3 (10)	2.5 (5.0)

The consideration payable for Tri-Solfen® is expected to be payable over a number of years, and relates to development milestones and sales performance. During the year, the development milestones and sales performance royalties have been remeasured. At 30 June 2023, the liability was discounted between 6.5% and 21.0%. The broad range of discount rates in respect of this licensing agreement reflects the commercial makeup of the arrangement, with discount rates for milestone payments related to regulatory approvals being lower and based on a cost of debt approach and those with more variability in timing and quantum of future cash flows being higher and based on a Capital Asset Pricing Model based approach, also taking into account systematic risk associated with elements of the future cash flows. The gross value of the development milestone is AUD11.0 million

The consideration payable for Laverdia is expected to be payable over a number of years, and relates to approval milestones and sales performance. During the year approval milestones and sales performance royalties have been remeasured. At 30 June 2023, the liability was discounted between 6.5% and 18.8% reflecting the commercial makeup of the arrangement similar to Tri-Solfen®. The gross value of the approval and sales performance (non-royalty) milestones is USD40.5 million.

The consideration payable for Mirataz relates to sales performance and is expected to be payable over a number of years.

The consideration remaining for a licensing agreement for an injectable solution relates to development milestones.

21. Provisions

	Dilapidations	**Total**	Dilapidations	Total
	2023	**2023**	2022	2022
	£'000	**£'000**	£'000	£'000
Balance at 1 July	**(850)**	**(850)**	(1,850)	(1,850)
Provision released	-	-	1,000	1,000
At 30 June	**(850)**	**(850)**	(850)	(850)

The provision for the warehouse property in Skipton will be utilised over the period to the expiry of the lease in March 2025.

Notes to the financial statements *(continued)*

22. Deferred tax liabilities

The deferred tax assets/(liabilities) are attributable to the following:

	2023	2022
	£'000	£'000
Intangible assets	**(308)**	(394)
Plant and equipment	**(1,308)**	(1,367)
Employee benefit obligations	**16**	8
Accrued expenses and provisions	**-**	63
Losses	**3,089**	-
Transferred to receivables	**(1,489)**	-
Total deferred tax	**-**	(1,690)

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. The movements during the year are:

	Balance at 1 July 2022	Recognised in income statement	**Balance at 30 June 2023**
	£'000	£'000	**£'000**
Intangible assets	(394)	86	**(308)**
Plant and equipment	(1,367)	59	**(1,308)**
Employee benefit obligations	8	8	**16**
Accrued expenses and provisions	63	(63)	**-**
Losses	-	3,089	**3,089**
	(1,690)	3,179	**1,489**

23. Called up share capital

	Ordinary shares of £1 each	
	Number	£'000
Allotted and fully paid		
At 30 June 2022	125,475,332	125,475
Shares issued	176,000,000	176,000
At 30 June 2023	**301,475,332**	301,475

The Company issued 176 million shares of £1 per share on the 25 July 2022 for consideration of £176,000,000.

24. Capital commitments

Contracts placed for capital expenditure not provided for in these financial statements amounted to £4,989,000 *(2022: £4,500,000).*

Notes to the financial statements *(continued)*

25. Pensions

The Company participates in a Group Stakeholder pension scheme. The pension charge in respect of the scheme for the year ended 30 June 2023 was £1,061,000 *(2022: £980,000)*. There was an accrual of £173,000 for pension contributions at 30 June 2023 (2022: £122,000).

26. Contingent liabilities

The Company guarantees the borrowings of certain other group companies which at 30 June 2023 amounted to £471,019,000 *(2022: £279,268,000).*

At 30 June 2023, contingent liabilities arising in the normal course of business amounted to £7.1 million *(2022: £12.4 million)* relating to license and distribution agreements entered into during the year. The stage of development of the projects underpinning the agreements dictates that a commercially stable product is yet to be achieved, and accordingly an intangible asset and contingent liability has not been recognised.

The Company continues to monitor developments in relation to EU State Aid investigations. On 25 April 2019, the EU Commission's final decision regarding its investigation into the UK's Controlled Foreign Company (CFC) regime was published. It concluded that the legislation up until December 2018 does partially represent State Aid. This decision was upheld by the EU General Court on 8 June 2022, when it dismissed the UK Government's annulment application. The UK Government has since lodged an appeal to the EU Court of Justice in August 2022.

The Company considers that the potential amount of additional tax payable is between £nil and £1.08m depending on the basis of calculation and the outcome of HMRC's appeal to the EU Court of Justice. Based on current advice, the Company does not consider any provision is required in relation to this investigation. This judgement is based on current interpretation of legislation and professional advice.

The Company received a charging notice from HMRC in February 2021 under The Taxation (Post Transition Period) Act for this exposure (£1.08 million) and has paid this to HMRC. As the Company considers that HMRC's appeal will be successful, the charging notice which was settled in full is recorded as current tax receivable on the basis that the amount will be repaid in due course.

27. Controlling parties

The immediate parent undertaking is Dechra Investments Limited. The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is Dechra Pharmaceuticals PLC.

Copies of the Group financial statements of Dechra Pharmaceuticals PLC may be obtained from the Company Secretary at 24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA.