Operating Review continued
Financial Review

Anne-Francoise Nesmes
Chief Financial Officer

Our divestment of the Services Segment (announced on 10 July 2013) was a logical strategic step following the successful acquisition of *Eurovet* in May 2012 and our stated objective to deliver a focused veterinary pharmaceuticals business. For the continuing operations in 2013, revenue and profits continued to grow, cash generation from operating activities was strong and investment to fund our advancing R&D pipeline increased.

All numbers are presented on a continuing operations basis for the Pharmaceuticals Segments and 2012 has been restated. The Services Segment is shown as a discontinued business in both years. Growth rates are shown on a constant exchange rate basis ("CER") and on a reported basis.

Underlying Financial Results
Underlying results of the Group reflect its trading performance excluding amortisation on acquired intangibles, non-underlying charges and other one-off events that are inherently volatile. Our results, excluding non-underlying items, are summarised below.

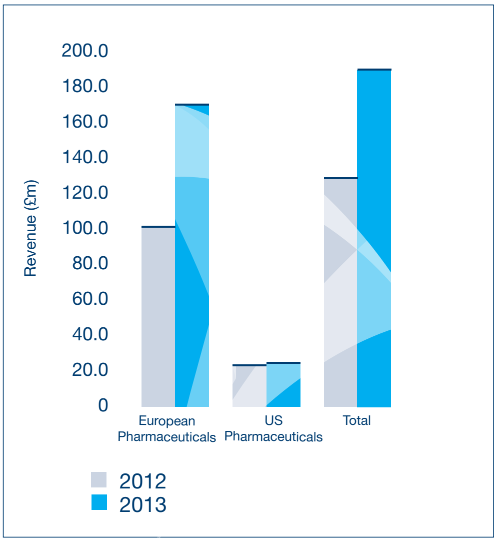
	2013			2012				
	Continuing operations £'m	**Discontinued operations £'m**	**Total £'m**	Continuing operations £'m	Discontinued operations £'m	Total £'m	Continuing operations Reported results	Continuing operations Constant currency
Revenue	**189.2**	**333.2**	**522.4**	124.3	315.7	440.0	+52.2%	+56.6%
Gross profit	**100.7**	**29.8**	**130.5**	71.1	28.2	99.3	+41.6%	+45.6%
Gross profit %	53.2%	9.0%	25.0%	57.2%	8.9%	22.6%		
Underlying operating profit	**39.1**	**11.1**	**50.2**	25.6	11.1	36.7	+53.1%	+58.2%
Underlying profit before tax	**33.5**	**11.1**	**44.6**	21.8	11.1	32.9	+53.7%	+59.7%
Underlying EBITDA	**42.8**	**11.8**	**54.6**	28.4	11.3	39.7	+51.0%	+55.6%

Revenue
Total Group revenue increased by 56.6% at constant exchange and 52.2% at reported rate compared to the year ended June 2012. The acquisition of *Eurovet* occurred towards the later part of the 2012 financial year and hence revenue for that period included only five weeks of Eurovet revenue.

Revenue by Segment

As reported, European Pharmaceuticals revenue at £168.7 million grew by 66.3% (CER) as a result of the *Eurovet* acquisition and a strong performance from our core brands.

Revenue in the US at £20.5 million increased by 4.7% (CER) hampered by third party supply issues, as referred to in the Chief Executive Officer's report. Excluding these issues, revenue increased approximately by 10%.

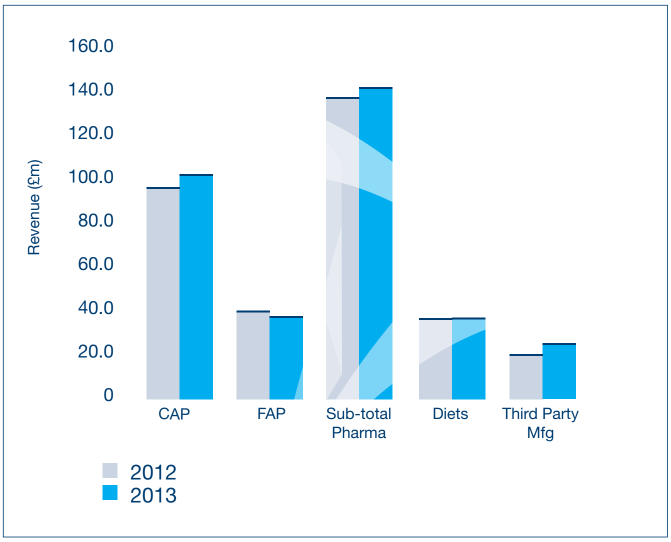


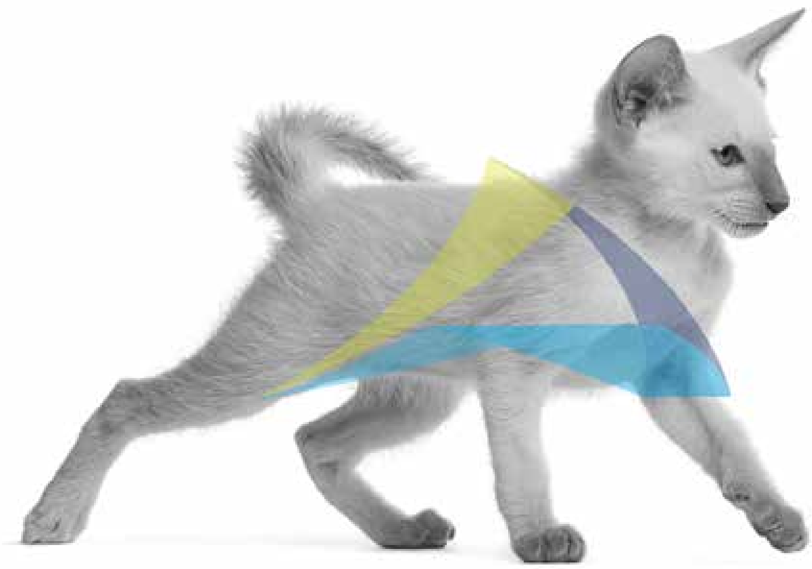
Revenue by Categories

On a like-for-like basis (including *Eurovet* for 12 months in 2012).

All franchises reflected growth (at CER) versus 2012:

- Pharmaceuticals increased by 4.7%
  - The companion animal products grew by 7.8% driven by our key products *Vetoryl*, *Felimazole* and *Cardisure*
  - The food producing animal products declined by 3.2% due to pressure on antibiotic prescriptions and competition on *Cyclospray*
- Diets delivered growth of 2.6%
- Third party manufacturing had a solid performance with 12.5% growth





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Gross Profit
Following the *Eurovet* acquisition, our pharmaceutical product mix has broadened to include generics and food producing animal products. Consequently, overall gross margins have declined by 4% from 57.2% to 53.2%.

Selling, General and Administrative expenses ("SG&A")
The SG&A increase of £13.8 million year on year reflects the full impact of running a combined operation after realising the expected synergies of the acquisition of *Eurovet*.

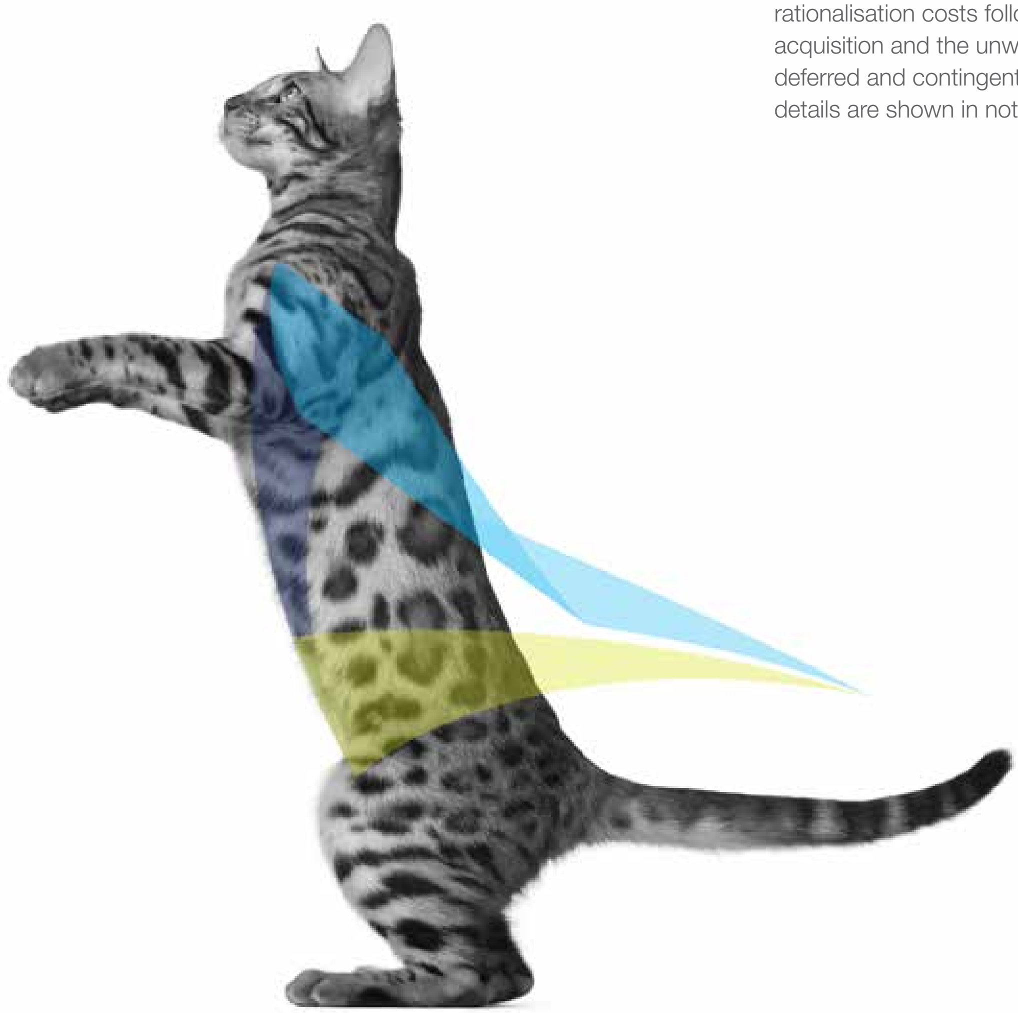
Research and Development Expenses ("R&D")
R&D investment has increased by £2.3 million from £5.7 million to £8.0 million. This increase reflects not only our enlarged R&D organisation following the *Eurovet* acquisition but also our additional investment to advance and deliver our promising pipeline.

Discontinued Businesses
Consistent with the Group's long term policy to focus its activities on the manufacture and marketing of specialist veterinary pharmaceutical products, we announced our intention to dispose of the Services Segment on 10 July 2013. The transaction was completed on 16 August 2013 with sales proceeds of £87.5 million.

The disposed businesses have been accounted for as discontinued operations. Transaction expenses of £1.5 million have been recorded as non-underlying items for the discontinued operations. See note 29.

Total Results and Non-Underlying Items
Including the profit from the discontinued operations and non-underlying items, Group's profit after tax of £17.9 million increased by 60.5% (CER) and 53.4% (at reported rate).

Non-underlying items of £21.1 million for the continuing operations for the year comprised amortisation of acquired intangibles, rationalisation costs following the *Eurovet* acquisition and the unwinding of discounts on deferred and contingent consideration. Full details are shown in notes 4 and 5.



	2013 Continuing operations £'m	2013 Discontinued operations £'m	2013 Total £'m	2012 Continuing operations £'m	2012 Discontinued operations £'m	2012 Total £'m	Reported results	Constant currency
Revenue	189.2	333.2	522.4	124.3	315.7	440.0	+18.7%	+20.0%
Cost of sales	(88.5)	(303.4)	(391.9)	(53.2)	(287.5)	(340.7)	+15.0%	+15.8%
Gross profit	100.7	29.8	130.5	71.1	28.2	99.3	+31.5%	+34.4%
Gross profit %	53.2%	9.0%	25.0%	57.2%	8.9%	22.6%		
Selling, General and Administrative expenses	(53.6)	(18.7)	(72.3)	(39.8)	(17.1)	(56.9)	+27.1%	+29.8%
Research and Development expenses	(8.0)	—	(8.0)	(5.7)	—	(5.7)	+38.8%	+38.9%
Underlying operating profit	39.1	11.1	50.2	25.6	11.1	36.7	+37.3%	+40.8%
Underlying operating profit %	20.7%	3.3%	9.6%	20.5%	3.5%	8.3%		
Net finance costs	(5.6)	—	(5.6)	(3.8)	—	(3.8)	+53.0%	+53.5%
Underlying profit before tax	33.5	11.1	44.6	21.8	11.1	32.9	+35.6%	+39.4%
Taxation	(8.0)	(2.7)	(10.7)	(5.8)	(2.9)	(8.7)	+23.4%	+27.0%
Tax rate %	24.1%	23.9%	24.1%	26.5%	25.8%	26.3%		
Underlying profit after tax	25.5	8.4	33.9	16.0	8.2	24.2	+40.0%	+43.8%
Non-underlying items	(21.1)	(1.5)	(22.6)	(15.7)	(0.4)	(16.1)	+39.8%	+40.5%
Tax on non-underlying items	6.5	0.1	6.6	3.6	—	3.6	+83.0%	+83.6%
Total non-underlying items	(14.6)	(1.4)	(16.0)	(12.1)	(0.4)	(12.5)	+27.5%	+28.2%
Reported profit for the period	10.9	7.1	17.9	3.9	7.8	11.7	+53.4%	+60.5%
Reported diluted EPS (pence)	12.39	8.06	20.45	5.18	10.42	15.60	+31.1%	+38.0%
Underlying diluted EPS (pence)	29.07	9.64	38.71	21.28	10.99	32.27	+20.0%	+23.6%

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Taxation
The underlying tax charge from continuing operations for the year was £8.0 million. This reflects an effective tax rate of 24.1% compared to 26.5% in 2012. Our effective rate has reduced in the year as a result of changes to tax rates in both the UK and overseas.

Earnings per Share and Dividends
Underlying diluted EPS for the year for the Group business was 38.71 pence (2012: 32.27 pence). The underlying diluted EPS for the continued operations was 29.07 pence, representing 36.6% growth (at reported rate) over 2012. For clarity, the EPS for the financial year does not reflect any future interest benefits or tax impact as a result of the divestment.

The Board is proposing a final dividend of 9.66 pence per share (2012: 8.50 pence). Added to the interim dividend of 4.34 pence per share, this brings the total dividend per share for the financial year ended June 2013 to 14.00 pence (2012: total 12.27 pence). Dividend cover based on underlying earnings was 2.8 times.

Subject to Shareholder approval at the Annual General Meeting to be held on 17 October 2013, the final dividend will be paid on 22 November 2013 to Shareholders on the Register at 8 November 2013. The shares will become ex-dividend on 6 November 2013.

Cash Flow and Net Debt

	2013 £'m	2012 £'m
Underlying operating profit	**50.2**	36.7
Non-underlying items (excluding amortisation on acquired intangibles)	**(4.0)**	(4.9)
Operating profit before acquired intangibles amortisation	**46.2**	31.8
Cash generated from operations before tax and interest payments	**49.4**	29.1
Cash conversion (%)	**107.0**	91.7

The net cash inflow from the Group's activities increased by £17.7 million (from £19.2 million to £36.9 million) reflecting the impact of our enlarged operations. A strong cash inflow in the second half of the year contributed to the cash conversion of 107.0%. Excluding non-underlying items, cash conversion was 98.4%. Following the divestment, the Group expects a moderate improvement in cash conversion.

The significant transaction to report for investing activities during the period is the further payment of US$16.0 million (£10.0 million) in respect of the acquisition of *DermaPet*, Inc.

The net borrowing position at the end of the year was £80.8 million down from £86.7 million last year.

At the end of the year, the Group had the following banking facilities;

- A balance of £50.0 million on the initial £55.0 million term loan repayable in instalments through October 2016. £5.0 million was repaid in the period; and
- A £65.0 million revolving credit facility until October 2016.

There was substantial headroom on all covenants during the year.

The Group also has an overdraft facility of £10.0 million, none of which was utilised at year end.

Balance Sheet

Net assets at 30 June 2013 totalled £174.6 million, a £20.9 million increase compared to the £153.7 million reported on 30 June 2012.

	2013 £'m	2012 Restated £'m
Assets		
Total non-current assets	**235.7**	237.1
Total current assets (excluding held for sale assets)	**89.6**	86.9
Assets held for sale	**89.8**	80.4
Total assets	**415.1**	404.4
Liabilities		
Total current liabilities (excluding held for sale liabilities)	**(49.5)**	(48.2)
Total non-current liabilities	**(137.0)**	(147.3)
Liabilities held for sale	**(54.0)**	(55.2)
Total liabilities	**(240.5)**	(250.7)
Total net assets	**174.6**	153.7

Intangibles amount to £219.6 million as at 30 June 2013. There was no significant movement versus 2012 other than the expected amortisation. The strong performance in the underlying trade associated with these intangibles continues to support their carrying value. Details can be found in note 11.

Total working capital for continuing operations was £28.4 million in June 2013 compared to £29.7 million in 2012. This reflects our disciplined management of working capital.

Financial Risks

From a financial perspective we consider several risks, including the following:

- Our foreign currency exposure: the Group has significant sales in Europe, some revenues in US$ and operations in Danish Krone;
- Exposure to interest rate changes: the Group has entered into an interest rate swap on the term loan and the revolving credit facility; and
- Tax to ensure we are compliant across all territories.

Additional considerations are disclosed in note 22.

Events after the Reporting Period

On 16 August 2013, the Group completed the sale of the Services businesses for a consideration of £87.5 million. The completion accounts are yet to be finalised.

Summary

During 2013 we continued to build a focused international specialist veterinary pharmaceuticals business. The divestment of the Services Segment at an attractive valuation strengthens our Balance Sheet giving the Group the opportunity to invest in our pipeline and other value-enhancing opportunities.