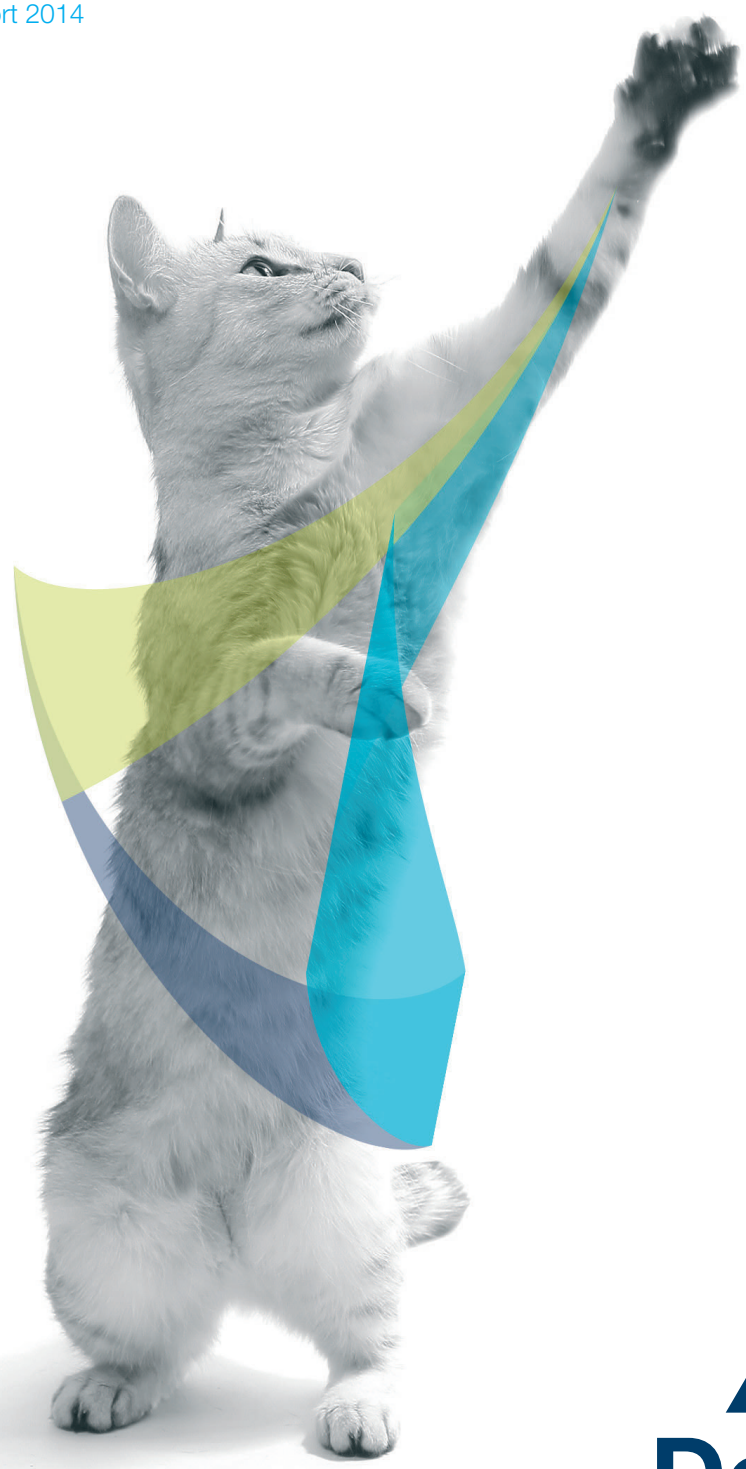
Developing
Focusing
Delivering

Half-Yearly Financial Report 2014

Stock Code: DPH



Dechra®

Pharmaceuticals PLC

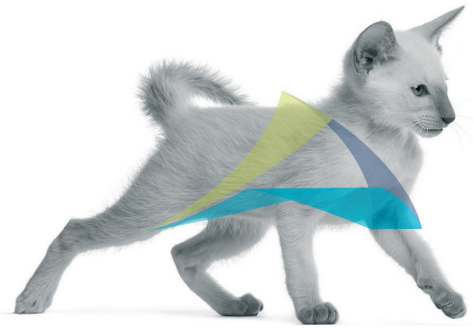
Welcome to Dechra Pharmaceuticals PLC

Dechra is an international specialist veterinary pharmaceuticals and related products business. Its expertise is in the development, manufacturing and sales and marketing of high quality products exclusively for veterinarians worldwide.

Our Highlights

- Solid performance delivering reported underlying operating profit growth of 14.1% at constant exchange rate (CER) (20.0% at reported rate)
- Group revenue declined by 0.7% at CER (up 4.3% at reported rate) due to under-performance in the Netherlands, phasing of export orders and continuing supply issues in the US; adjusting for these items, revenue growth was 3.4%
- Improved gross margin from 52.1% to 56.5%
- Pipeline progressing as expected
- Completed three in-licensed product deals, one for the US and two for the EU
- Underlying diluted EPS for continuing operations at 16.94p, growth of 22.3% at CER (29.4% at reported rate)
- Interim dividend increased by 9.4% to 4.75p (2012: 4.34p)

Financial Calendar	
Interim Dividend Ex-Dividend Date	12 March 2014
Interim Dividend Record Date	14 March 2014
Interim Dividend Payment Date	8 April 2014
Financial Accounting Period End	30 June 2014
Preliminary Results Announcement	September 2014



Pages 1 to 3 do not form part of the Half-Yearly Financial Report and as such do not form part of the Auditor's Independent Review.

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

Financial Highlights

Financial Summary	Continuing Operations Unaudited Six months ended 31 December 2013 £000	Unaudited† Six months ended 31 December 2012 £000	Reported results	Constant currency
Revenue	**95,913**	91,971	4.3%	(0.7%)
Underlying Operating Profit*	**22,282**	18,567	20.0%	14.1%
Underlying Profit before Taxation*	**20,004**	15,259	31.1%	23.3%
Underlying Diluted Earnings per Share* (pence)	**16.94**	13.09	29.4%	22.3%
Dividend per Share (pence)	**4.75**	4.34	9.4%	9.4%
Operating Profit	**13,912**	9,365	48.6%	37.1%
Profit before Taxation	**10,334**	5,831	77.2%	59.3%
Diluted Earnings per Share (pence)	**8.75**	5.00	75.0%	56.4%

* Non-underlying items comprise amortisation of acquired intangibles, acquisition expenses, rationalisation costs, loss on extinguishment of debt, and the unwinding of discounts on deferred and contingent consideration (see note 8).

† Restated to reflect continuing operations

Segmental Revenue

European Pharmaceuticals

£86.0m

- Resilient performance in majority of European markets
- Decline of 0.6% at CER (growth at 4.9% at reported rate) due to under-performance in the Netherlands and the impact of phasing of export orders
- Revenue growth, adjusting for the Netherlands and export phasing, of 2.6% at CER
- New Dechra subsidiary established in Italy, to start trading in March 2014

US Pharmaceuticals

£9.9m

- Strong performance with double digit revenue growth of key products: *Vetoryl*®, *Felimazole*® and the dermatology range
- Decline of 1.5% at CER (1% decrease at reported rate) due to Animax supply issues
- Revenue growth, adjusting for supply issues, of 12.5% at CER

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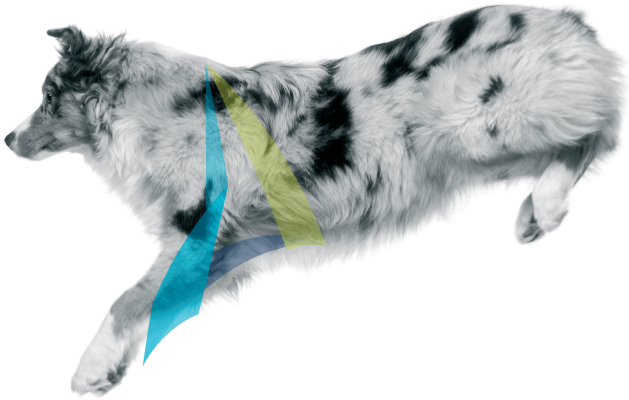
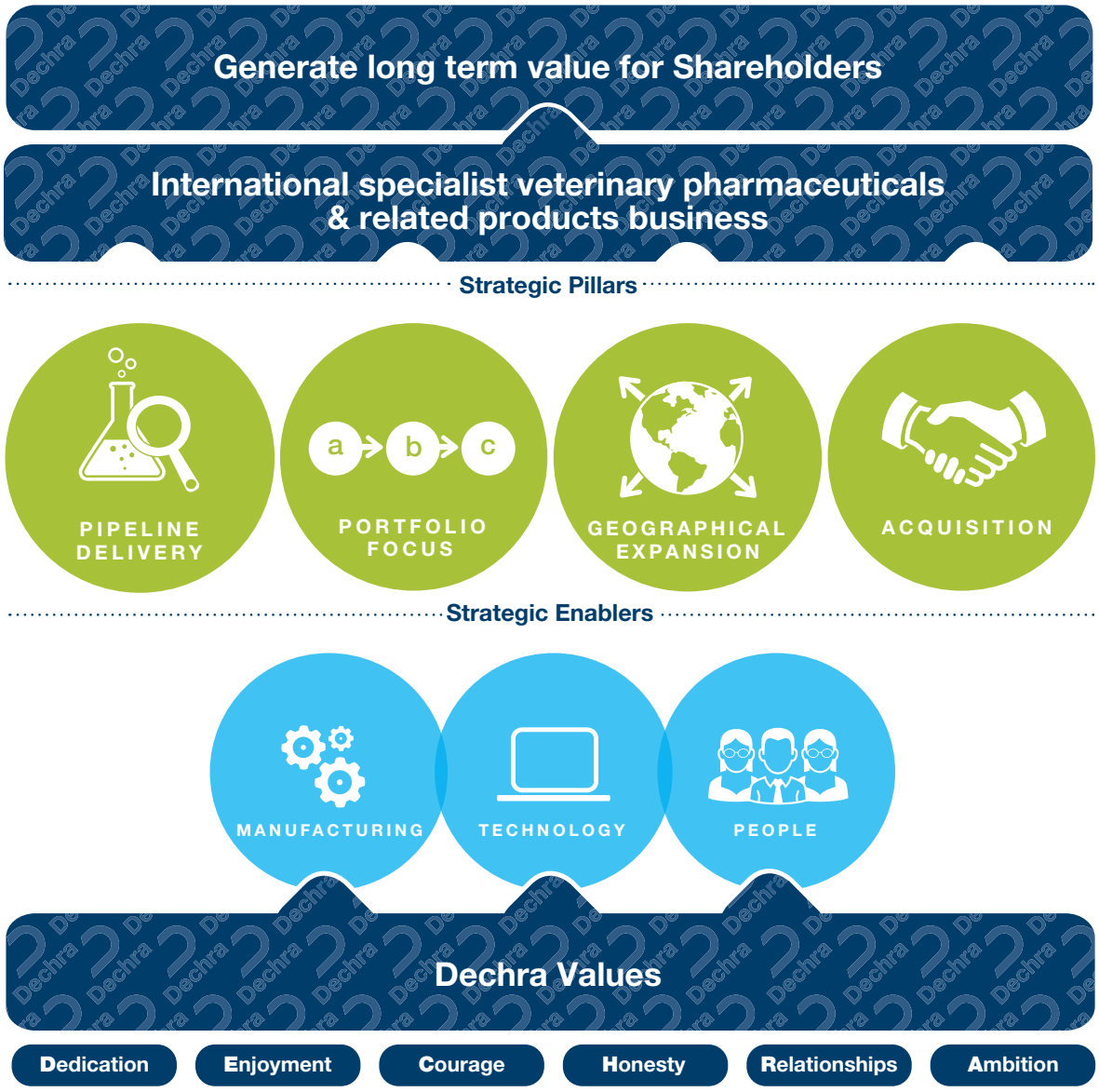


Our Strategy

To continue to develop our position as an international, high margin, cash generative, specialist veterinary pharmaceuticals and related products business with a clear focus on key therapeutic areas: dermatology, analgesia and critical care, endocrinology, cardiovascular, equine and farm animal antimicrobials through:

- Pipeline Delivery
- Portfolio Focus
- Geographical Expansion
- Acquisition



Our Strategy in Detail

Strategic Pillars

Pipeline Delivery

- Deliver existing pipeline projects to schedule
- Work effectively with regulators
- Continuously refill the pipeline by identifying and evaluating new ideas

Portfolio Focus

- Maximise revenue and profit from existing Companion Animal Product portfolio by focusing on clearly defined therapeutic areas
- Develop and grow critical mass of our Food producing Animal Product portfolio

Geographical Expansion

- Grow our US business and invest steadily in the infrastructure as pipeline delivers growth
- Short term: establish Dechra subsidiaries in new territories where there is existing critical mass
- Mid term: focus on countries where we can build critical mass or enter via acquisition
- Longer term: build a presence, initially through partnerships, where barriers to entry are high

Acquisition

- Target strategic acquisitions that will expand our geographical footprint and/or enhance our product portfolio

Strategic Enablers

Manufacturing

- Maintain efficient and effective in-house operations
- Retain competitive advantage through flexible manufacturing capabilities (wide range of scale and dosage forms)
- Extend FDA approval to new dosage forms
- Improve supply chain capabilities

Technology

- Improve operating efficiency and processes through the Group-wide implementation of Oracle and other applicable systems
- Maximise use of and exploit new technologies wherever possible

People

- Strengthen the Dechra culture and ensure our Values encapsulate our business ethics and our standards
- Attract, retain and develop talent
- Develop effective succession plans to ensure business continuity

Maximising returns for Shareholders

- Create long term value by investing in our strategy:
  - Innovate and generate sustainable profit growth through our pipeline delivery
  - Maintain market leadership in defined therapeutic areas and improve returns through our portfolio focus
  - Seize growth opportunities in new markets through geographical expansion
  - Deliver incremental sales and earnings growth through value enhancing strategic acquisitions
- Maintain strong cash generation

Half-Yearly Financial Report 2014

for the six months ended 31 December 2013

Introduction

The Group has delivered a solid performance for the first six months of the financial year. Revenue in the majority of markets in which we trade has shown growth; however, trading was negatively impacted by a disappointing performance in the Netherlands, the phasing of export orders and continuing supply issues in the US. Half Year profitability improved as a result of a strong gross margin, prudent cost management and the ongoing delivery of synergies from the *Eurovet*® Animal Health B.V. *(Eurovet)* acquisition.

Following the successful divestment of our Services Segment in August 2013, we have refined our strategy and now have a clear focus as a purely veterinary pharmaceutical and related products business. Our focus is on four strategic growth drivers:

- delivery of our existing product pipeline and identification of future development opportunities;
- optimisation of returns from our existing portfolio;
- geographical expansion to capture the growth opportunities in Europe and Emerging Markets; and
- strategic acquisitions to expand our geographical footprint and/or enhance our portfolio.

Financial Review

The Group delivered a strong profit performance with underlying operating profit before an adjustment for a deferred profit in stock release growing at 9.0% at CER and 14.9% at reported rate. Reported underlying operating profit at £22.3 million, including the benefit of the stock release of £1.0 million, increased by 14.1% at CER and 20.0% at reported rate.

This performance was influenced by:

- a positive gross margin impact from the product mix valued at £3.3 million; and
- a one-off stock accounting adjustment of £1.0 million as, following divestment, the Services Segment changed from being an inter-company to a third party customer.

Together these factors had a positive impact on gross margin from 52.1% in the prior period to 56.5% in the six months ended 31 December 2013.

Revenue totalled £95.9 million, a decrease of 0.7% at CER and an increase of 4.3% at reported rate. A good performance in most markets was offset by the continuing supply issues in the US, the disappointing performance in the Netherlands and the phasing of export orders. Excluding the impact of these head winds, our revenue growth was 3.4%.

Revenue by categories are shown below:

Revenue	**Six months ended 31 December 2013 £m**	Six months ended 31 December 2012 £m	Reported results	Constant currency
CAP	**49.8**	47.0	6.0%	0.9%
FAP	**23.3**	23.6	(1.3%)	(6.5%)
Sub-total pharmaceuticals	**73.1**	70.6	3.5%	(1.6%)
Diets	**14.5**	13.4	8.2%	1.8%
Third party manufacturing	**8.3**	8.0	3.8%	3.0%
Total	**95.9**	92.0	4.3%	(0.7%)

Companion Animal Products (CAP) grew by 0.9% at CER but Food producing Animal Products (FAP) were lower than expected, declining by 6.5% at CER, mainly due to continued pressure on antibiotics prescribing. These changes in product mix resulted in a positive impact of 4.4% on the gross margin.

Other than the planned increase in central costs and R&D, costs grew in line with inflation. An increase in the cost of the share-based payments and the reallocation of corporate costs following the divestment of the Services Segment resulted in higher central costs at £2.6 million, an increase of 22.1% at CER and reported rate. R&D costs increased by £0.2 million to £3.6 million.

Currency movement impacted our first half year results positively as a result of the devaluation of Sterling against the Euro compared to the same period last year.

The sale of the Services Segment was completed on 16 August 2013 and the results of the discontinued operations are shown in the accounts as profit from discontinued operations. The profit from the discontinued operations was £39.6 million, of which £38.7 million was the profit on disposal.

Including the profit from the discontinued operations and non-underlying items, the Group's profit after tax totalled £47.3 million.

As reported in previous periods, the working capital requirements of the Services Segment varied greatly over time. As completion occurred half way through the month, the working capital position on 16 August 2013 was significantly higher than at year-end. This increase in the Services Segment working capital affected our operating cash flow before interest and tax payments, generating a cash inflow of £0.4 million at the end of December 2013 compared to cash generation of £11.6 million at December 2012. Excluding the Services' working capital outflow of £14.2 million, cash generated from operations before interest and tax payments for the continuing operations was £14.6 million. We expect our cash generation to improve in the second half of the year.

Our net debt position has improved considerably; we repaid all of our fixed term loan and part of our revolving credit facility in September 2013, reducing net debt from £80.8 million at 30 June 2013 to £10.5 million at 31 December 2013.

The reduction in interest payments following the repayment of our debt contributed to our Earnings per Share increase. Underlying Diluted Earnings per Share grew by 22.3% at CER (29.4% at reported rate) from 13.09 pence to 16.94 pence.

Dividend

The Board is pleased to declare an interim dividend of 4.75 pence per Share, which represents a growth of 9.4% compared to the prior year.

The dividend will be payable on 8 April 2014 to Shareholders on the Register at 14 March 2014. The Ordinary Shares will become ex-dividend on 12 March 2014.

Operational Review

European Pharmaceuticals

Despite the challenging market conditions and continuing economic uncertainty, our successful integration of *Eurovet* continued and sales in all our key European markets, with the exception of the Netherlands, delivered resilient growth. Our European Pharmaceuticals Segment delivered revenue of £86.0 million, a decline of 0.6% at CER. This was due to the phasing of export orders and the ongoing pressure to reduce antimicrobial usage in animal medicine due to concerns of potential cross-over resistance from animals to humans by over utilisation of antibiotics. The Dutch market, in which we have under-performed, has been particularly affected with the introduction 12 months ago of new dispensing guidelines; we do, however, expect that on a like-for-like basis the decline in the second half will be reduced. Adjusting for the export sales phasing and the Netherlands under-performance, sales growth for this Segment was 2.6% at CER.

Developing and expanding our product range is a key strategic objective; the following advances have been made to our portfolio during the period:

- *Felimazole* 1.25mg has been launched as part of our defence strategy against new generics entrants that compete with our higher dosage products. This low dose strength increases dosing options which gives the veterinarian flexibility to achieve the correct balance for the patient;

Half-Yearly Financial Report 2014 continued

- *Sedator*®, *Atipam*® and *Domidine*®, three sedatives that were part of the *Eurovet* CAP portfolio, have been approved and launched in Norway in 2013 and in Sweden in January 2014 (post the period being reported);
- *Forthyron*®, a canine endocrinology product, has been prepared for launch in France and Sweden following the termination of distribution agreements with prior marketing partners; and
- we have secured the rights to market two new in-licensed products: Alfaxan, a cat sedative from Jurox (excluding the UK) and Sporimune, an oral dermatological product from Le Vet.

Geographical expansion is another strategic area of focus. Our own sales and marketing and technical support organisation in Italy has been established and will commence trading in March 2014. An experienced Country Manager has been appointed and the support team has been recruited. This new subsidiary in Italy will increase the territories in which we market our own branded products, thereby retaining the full margin from our existing and future portfolio.

We have delivered a strong performance at both of our manufacturing facilities: Skipton in the UK and Bladel in the Netherlands. Third party contract manufacturing continues to perform well with a strong order book and significant new contracts being secured in the period. There has been increased integration and collaboration between the two sites in terms of quality systems, product development capabilities and productivity; furthermore a new site director has been appointed at the Bladel facility.

Work has commenced on the expansion and redevelopment of the liquid, creams and ointments suite at Skipton; this development will increase capacity, improve quality systems and is a major step towards our objective to achieve FDA (US Food and Drug Administration) approval for these dosage forms.

As part of our wider IT strategy to roll out Oracle ERP across the Group, the system successfully went live at our Bladel manufacturing facility in November 2013.

US Pharmaceuticals

We have delivered a strong performance from our key products, *Vetoryl*, *Felimazole* and the dermatology range, all delivering double digit revenue growth. Revenue reached £9.9 million, declining by 1.5% at CER. Growth in the US, excluding supply issues, was 12.5%.

This strong performance was masked by previously announced and ongoing supply issues with Animax. Current stability data provided by the contract manufacturer of Animax is positive and we remain hopeful that production can recommence prior to the end of the year. We also continue to have supply issues in respect of our sterile ophthalmics range; the dossier has been re-submitted to the FDA and we await their response.

Miconahex+Triz™, a new dermatological product that has been launched, is a unique product which we believe has marketing advantages over a leading brand for which the patent has recently expired. This launch will strengthen our dermatological portfolio and ensure its continued growth.

Product Development

Progress continues to be made on our product development pipeline. Major milestones for the following key projects that we have previously outlined have been reached:

- we have received a positive response to our CMC (Chemistry and Manufacturing Controls) application to the FDA for a near-term novel equine product; and
- we have successfully completed a clinical trial with good results for a canine endocrine product.

Additionally, within the period, we obtained product registrations in new markets, notably *Felimazole* 2.5mg and 5mg in South Korea.

Planning has been completed to extend the pharmaceutical development laboratory in Skipton as we continue to increase development work for both in-house projects and for third party customers.

Risks and Uncertainties

The Group, like every business, faces risks and uncertainties in both its day-to-day operations and through events relating to the achievement of its strategic objectives. The Board has ultimate responsibility for risk management and regularly assesses and monitors the key business risks. The Board does not consider that the principal risks and uncertainties have changed since the publication of the Group's 2013 Annual Report and Accounts. A explanation of the risks and how the Group seeks to mitigate them, can be found on pages 46 to 47 of the 2013 Annual Report, a copy of which is available at www.dechra.com.

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the current financial year and these are summarised below.

Competitive Environment

The environment within which the Group operates is becoming increasingly competitive. A generic competitor product has been launched against *Felimazole*, one of our key brands, in a number of EU territories. We will continue to defend *Felimazole*'s market position in line with our product defence strategy.

Currency Movements

The Group has significant operations outside the UK and as such is exposed to movements in exchange rate.

Commercial Risk

The prescribing pressure on veterinarians to reduce antibiotic use continues in a number of territories. Further details in respect of this risk are detailed on page 5 of this report.

Cushing's Disease in dogs needs to be diagnosed by veterinarians using a diagnostic drug called Synacthen, a brand which is owned and manufactured by another company. This is currently in short supply and this could therefore impact the willingness of veterinarians to start treating dogs with *Vetoryl;* however, alternative options are being investigated.

Third Party Relationships

Ongoing issues remain in relation to third party supply, primarily in relation to Animax and the US Ophthalmic range. Our US team are working closely with these suppliers in order to resolve the situation and we are hopeful that the products will be available to market in 2014.

Outlook

The Board remains confident that the Group's earnings will meet its expectations for the financial year. We are, however, cautious regarding the overall economic environment and the ongoing concerns regarding antimicrobial products used in veterinary medicine.

We continue to make progress in all four aspects of our strategy and we believe we are well positioned to continue to strengthen our position within global animal health markets and to deliver strong future growth.

Responsibility Statement of the Directors in respect of the Half-Yearly Financial Report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;
- the interim management report (this comprises the Half-Yearly Financial Report) includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By Order of the Board

Ian Page
Chief Executive Officer
25 February 2014

Condensed Consolidated Income Statement

for the six months ended 31 December 2013

	Note	Six months ended 31.12.13 £000	Restated† 31.12.12 £000	Year ended 30.06.13 £000
Revenue	2	**95,913**	91,971	189,176
Cost of sales		**(41,667)**	(44,077)	(88,470)
Gross profit		**54,246**	47,894	100,706
Selling, general and administrative expenses		**(36,695)**	(35,102)	(74,409)
Research and development expenses		**(3,639)**	(3,427)	(7,961)
Operating profit	2	**13,912**	9,365	18,336
Underlying operating profit	8	**22,282**	18,567	39,108
Non-underlying items*	8	**(8,370)**	(9,202)	(20,772)
Operating profit		**13,912**	9,365	18,336
Finance income	3	**133**	26	73
Underlying finance expense	4	**(2,411)**	(3,334)	(5,634)
Non-underlying items*	4	**(1,300)**	(226)	(297)
Finance expense		**(3,711)**	(3,560)	(5,931)
Profit before taxation	2	**10,334**	5,831	12,478
Underlying profit before taxation	8	**20,004**	15,259	33,547
Non-underlying items*	8	**(9,670)**	(9,428)	(21,069)
Profit before taxation — continuing operations		**10,334**	5,831	12,478
Income tax expense	5	**(2,646)**	(1,476)	(1,628)
Profit for the period — continuing operations		**7,688**	4,355	10,850
Underlying profit after taxation		**14,883**	11,398	25,464
Non-underlying items*		**(7,195)**	(7,043)	(14,614)
Profit for the period — continuing operations		**7,688**	4,355	10,850
Profit for the period — discontinued operations	13	**39,631**	4,257	7,063
Profit for the period attributable to owners of the parent		**47,319**	8,612	17,913
Earnings per share				
Basic	7	**54.26p**	9.91p	20.59p
— continuing operations		**8.82p**	5.01p	12.47p
— discontinued operations		**45.44p**	4.90p	8.12p
Diluted	7	**53.86p**	9.89p	20.45p
— continuing operations		**8.75p**	5.00p	12.39p
— discontinued operations		**45.11p**	4.89p	8.06p
Dividend per share	6	**4.75p**	4.34p	14.00p

* Non-underlying items comprise amortisation of acquired intangibles, acquisition expenses, rationalisation costs, loss on extinguishment of debt, and the unwinding of discounts on deferred and contingent consideration.

† Restated for discontinued operations.

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 31 December 2013

	Six months ended		Year ended
	31.12.13	31.12.12	30.06.13
	£000	£000	£000
Profit for the period	**47,319**	8,612	17,913
Other comprehensive income:			
Items that will not be subsequently recycled to the profit or loss:			
Remeasurement of defined benefit pension scheme	**–**	–	(772)
	–	–	(772)
Items that may be subsequently recycled to the profit or loss:			
Effective portion of changes in fair value of cash flow hedges	**(181)**	(768)	(185)
Cash flow hedges recycled to income statement	**101**	230	557
Foreign currency translation differences for foreign operations	**(10,079)**	4,833	12,789
Income tax relating to components of other comprehensive income	**17**	124	(86)
	(10,142)	4,419	13,075
Total comprehensive income for the period attributable to owners of the parent	**37,177**	13,031	30,216

Condensed Consolidated Statement of Financial Position

as at 31 December 2013

ASSETS	Note	As at 31.12.13 £000	As at 31.12.12 £000	As at 30.06.13 £000
Non-current assets				
Intangible assets		**204,208**	222,869	219,596
Property, plant and equipment		**16,485**	16,479	16,074
Total non-current assets		**220,693**	239,348	235,670
Current assets				
Inventories		**30,932**	58,394	29,199
Trade and other receivables		**26,138**	73,406	27,682
Cash and cash equivalents	9	**22,506**	16,603	32,791
Assets of disposal group held for sale		**—**	—	89,784
Total current assets		**79,576**	148,403	179,456
Total assets		**300,269**	387,751	415,126
LIABILITIES				
Current liabilities				
Borrowings		**(319)**	(9,890)	(9,750)
Trade and other payables		**(23,987)**	(67,750)	(28,483)
Deferred and contingent consideration		**(896)**	(2,157)	(957)
Current tax liabilities		**(6,984)**	(7,717)	(10,368)
Liabilities of disposal group held for sale		**—**	—	(53,961)
Total current liabilities		**(32,186)**	(87,514)	(103,519)
Non-current liabilities				
Borrowings		**(32,666)**	(108,677)	(103,840)
Deferred and contingent consideration		**(4,654)**	(4,609)	(4,971)
Employee benefit obligations		**(1,131)**	(499)	(996)
Deferred tax liabilities		**(25,629)**	(25,983)	(27,184)
Total non-current liabilities		**(64,080)**	(139,768)	(136,991)
Total liabilities	2	**(96,266)**	(227,282)	(240,510)
Net assets		**204,003**	160,469	174,616
EQUITY				
Issued share capital		**872**	871	872
Share premium account		**123,944**	123,192	123,485
Own shares		**(606)**	—	—
Hedging reserve		**(63)**	(700)	—
Foreign currency translation reserve		**(973)**	1,150	9,106
Merger reserve		**1,770**	1,770	1,770
Retained earnings		**79,059**	34,186	39,383
Total equity attributable to equity holders of the parent		**204,003**	160,469	174,616

Condensed Consolidated Statement of Changes in Shareholders' Equity

for the six months ended 31 December 2013

	Attributable to owners of the parent							
	Issued share capital £000	Share premium account £000	Own shares £000	Hedging reserve £000	Foreign currency translation reserve £000	Merger reserve £000	Retained earnings £000	Total £000
Six months ended 31 December 2012								
At 1 July 2012	869	122,642	—	(286)	(3,683)	1,770	32,370	153,682
Profit for the period	—	—	—	—	—	—	8,612	8,612
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	—	(591)	—	—	—	(591)
Foreign currency translation differences for foreign operations, net of tax	—	—	—	—	4,833	—	—	4,833
Cash flow hedges recycled to income statement, net of tax	—	—	—	177	—	—	—	177
Total comprehensive income for the period	—	—	—	(414)	4,833	—	8,612	13,031
Transactions with owners								
Dividends paid	—	—	—	—	—	—	(7,390)	(7,390)
Share-based payments	—	—	—	—	—	—	594	594
Shares issued	2	550	—	—	—	—	—	552
Total contributions by and distribution to owners	2	550	—	—	—	—	(6,796)	(6,244)
At 31 December 2012	871	123,192	—	(700)	1,150	1,770	34,186	160,469
Year ended 30 June 2013								
At 1 July 2012	869	122,642	—	(286)	(3,683)	1,770	32,370	153,682
Profit for the period	—	—	—	—	—	—	17,913	17,913
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	—	(140)	—	—	—	(140)
Foreign currency translation differences for foreign operations, net of tax	—	—	—	—	12,789	—	—	12,789
Remeasurement of defined benefit pension scheme	—	—	—	—	—	—	(772)	(772)
Cash flow hedges recycled to income statement, net of tax	—	—	—	426	—	—	—	426
Total comprehensive income for the period	—	—	—	286	12,789	—	17,141	30,216
Transactions with owners								
Dividends paid	—	—	—	—	—	—	(11,170)	(11,170)
Share-based payments	—	—	—	—	—	—	1,042	1,042
Shares issued	3	843	—	—	—	—	—	846
Total contributions by and distribution to owners	3	843	—	—	—	—	(10,128)	(9,282)
At 30 June 2013	872	123,485	—	—	9,106	1,770	39,383	174,616
Six months ended 31 December 2013								
At 1 July 2013	**872**	**123,485**	**—**	**—**	**9,106**	**1,770**	**39,383**	**174,616**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**47,319**	**47,319**
Effective portion of changes in fair value of cash flow hedges, net of tax	**—**	**—**	**—**	**(143)**	**—**	**—**	**—**	**(143)**
Foreign currency translation differences for foreign operations, net of tax	**—**	**—**	**—**	**—**	**(10,079)**	**—**	**—**	**(10,079)**
Cash flow hedges recycled to income statement, net of tax	**—**	**—**	**—**	**80**	**—**	**—**	**—**	**80**
Total comprehensive income for the period	**—**	**—**	**—**	**(63)**	**(10,079)**	**—**	**47,319**	**37,177**
Transactions with owners								
Dividends paid	**—**	**—**	**—**	**—**	**—**	**—**	**(8,420)**	**(8,420)**
Share-based payments	**—**	**—**	**—**	**—**	**—**	**—**	**777**	**777**
Shares issued	**—**	**459**	**—**	**—**	**—**	**—**	**—**	**459**
Own shares purchased	**—**	**—**	**(606)**	**—**	**—**	**—**	**—**	**(606)**
Total contributions by and distribution to owners	**—**	**459**	**(606)**	**—**	**—**	**—**	**(7,643)**	**(7,790)**
At 31 December 2013	**872**	**123,944**	**(606)**	**(63)**	**(973)**	**1,770**	**79,059**	**204,003**

Condensed Consolidated Statement of Cash Flows

for the six months ended 31 December 2013

	Note	Six months ended 31.12.13 £000	Six months ended 31.12.12 £000	Year ended 30.06.13 £000
Cash flows from operating activities				
Profit for the period		**47,319**	8,612	17,913
Adjustments for:				
Depreciation		**1,101**	1,305	2,795
Amortisation and impairment		**9,018**	9,232	19,876
Loss on disposal of intangible assets		**2**	—	—
Loss/(gain) on sale of property, plant and equipment		**20**	(4)	462
Profit on disposal and related expenses of discontinued operations, net of tax	13	**(38,611)**	—	1,357
Finance income	3	**(133)**	(26)	(73)
Finance expense	4	**3,711**	3,560	5,931
Equity-settled share-based payments expense		**865**	334	821
Income tax expense		**2,942**	2,917	4,167
Operating cash flow before changes in working capital		**26,234**	25,930	53,249
(Increase)/decrease in inventories		**(3,537)**	(992)	1,299
Increase in trade and other receivables		**(17,156)**	(974)	(9,456)
(Decrease)/increase in trade and other payables		**(5,145)**	(12,342)	4,302
Cash generated from operating activities before interest and taxation		**396**	11,622	49,394
Interest paid		**(1,707)**	(2,697)	(4,788)
Income taxes paid		**(7,030)**	(5,125)	(7,741)
Net cash (outflow)/inflow from operating activities		**(8,341)**	3,800	36,865
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		**—**	4	11
Interest received		**221**	84	74
Acquisition of subsidiaries	10	**—**	(10,083)	(10,333)
Proceeds from disposal of discontinued operations	13	**89,626**	—	—
Purchase of property, plant and equipment		**(1,828)**	(957)	(3,665)
Capitalised development expenditure		**(451)**	(945)	(1,584)
Purchase of other intangible non-current assets		**(635)**	(1,291)	(3,871)
Net cash inflow/(outflow) from investing activities		**86,933**	(13,188)	(19,368)
Cash flows from financing activities				
Proceeds from the issue of share capital		**(147)**	552	846
Repayment of borrowings		**(81,116)**	(508)	(5,653)
Resetting of foreign currency borrowings		**1,557**	696	(2,289)
Dividends paid		**(8,420)**	(7,390)	(11,170)
Net cash outflow from financing activities		**(88,126)**	(6,650)	(18,266)
Net decrease in cash and cash equivalents		**(9,534)**	(16,038)	(769)
Cash and cash equivalents at start of period		**32,791**	32,435	32,435
Exchange differences on cash and cash equivalents		**(751)**	206	1,125
Cash and cash equivalents at end of period		**22,506**	16,603	32,791
Reconciliation of net cash flow to movement in net borrowings				
Net decrease in cash and cash equivalents		**(9,534)**	(16,038)	(769)
Repayment of borrowings		**81,116**	508	5,653
New finance leases		**—**	(329)	(190)
Exchange differences on cash and cash equivalents		**(751)**	206	1,125
Retranslation of foreign borrowings		**983**	696	687
Other non-cash changes		**(1,494)**	(290)	(588)
Movement in net borrowings in the period		**70,320**	(15,247)	5,918
Net borrowings at start of period		**(80,799)**	(86,717)	(86,717)
Net borrowings at end of period	9	**(10,479)**	(101,964)	(80,799)

Notes to the Financial Statements

for the six months ended 31 December 2013

1 Basis of Preparation and Principal Accounting Policies

Dechra Pharmaceuticals PLC (Dechra or the Company) is a Company domiciled in the UK. The condensed set of financial statements as at, and for, the six months ended 31 December 2013 comprises the Company and its subsidiaries (together referred to as the Group).

The Group financial statements as at, and for, the year ended 30 June 2013 prepared in accordance with IFRSs as adopted by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under EU adopted IFRS, are available upon request from the Company's registered office at 24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA.

The prior year comparatives are derived from audited financial information for Dechra Pharmaceuticals PLC as set out in the Annual Report for the year ended 30 June 2013 and the unaudited financial information in the Half-Yearly Financial Report for the six months ended 31 December 2012. The comparative figures for the financial year ended 30 June 2013 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's Auditor and delivered to the Registrar of Companies. The report of the Auditor (i) was unqualified, (ii) did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The Directors consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these Interim Financial Statements.

The condensed set of financial statements for the six months ended 31 December 2013 are unaudited but have been reviewed by the Auditor. The Independent Review Report is set out on page 20.

Statement of Compliance

The condensed set of financial statements included in this Half-Yearly Financial Report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU. The condensed set of financial statements does not include all of the information required for full annual financial statements, and should be read in conjunction with the Group financial statements as at, and for, the year ended 30 June 2013.

This condensed set of financial statements was approved by the Board of Directors on 25 February 2014.

Significant Accounting Policies

As required by the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's consolidated financial statements for the year ended 30 June 2013, except where new or revised accounting standards have been applied.

Estimates and Judgements

The preparation of a condensed set of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

New and Revised Standards

The following standards/revisions to standards and interpretations are applicable to the Group and have been adopted as they are mandatory for the year ending 30 June 2014:

— Amendment to IAS 19 '*Employee Benefits*'

— IFRS 13 '*Fair Value Measurements*'

The adoption of these amendments has not had a material impact on the Group's financial statements.

2 Operating Segments

The Group has four reportable segments, as discussed below, which are based on information provided to the Board of Directors, which is deemed to be the Group's chief operating decision maker. Several operating segments which have similar economic characteristics have been aggregated into the reporting segments.

On 16 August 2013, the Group completed the sale of the Services Segment. This Segment comprised National Veterinary Services, Dechra Laboratory Services and Dechra Specialist Laboratories. The Segment serviced UK veterinary practices in both the companion animal and livestock sectors. This Segment was not a discontinued operation or classified as held for sale at 31 December 2012 and the comparative Condensed Consolidated Income Statement has been restated to show the discontinued operation separately from continuing operations. Refer to note 13 for further details and segmental analysis in relation to the Services division.

The European Pharmaceuticals Segment comprises Dechra Veterinary Products EU, *Eurovet* and Dechra Pharmaceuticals Manufacturing. This Segment operates internationally and specialises in Companion Animal Products and has expanded into the Food producing Animal Products market following the acquisition of *Eurovet*. This Segment also includes third party manufacturing sales.

The US Pharmaceuticals Segment consists of Dechra Veterinary Products US which sells companion animal pharmaceuticals into that territory.

The Pharmaceuticals Research and Development Segment includes all of the Group's Pharmaceutical Research and Development activities.

There are varying levels of intersegment trading. Intersegment pricing is determined on an arm's length basis.

	Six months ended		Year ended
	31.12.13	31.12.12	30.06.13
	£000	£000	£000
Revenue by segment			
European Pharmaceuticals — total	**85,974**	81,935	168,684
US Pharmaceuticals — total	**9,939**	10,036	20,889
— intersegment	**—**	—	(397)
	95,913	91,971	189,176
Operating profit/(loss) by segment			
European Pharmaceuticals	**25,219**	21,171	45,819
US Pharmaceuticals	**3,279**	2,963	5,585
Pharmaceuticals Research and Development	**(3,639)**	(3,457)	(7,961)
Segment operating profit	**24,859**	20,677	43,443
Corporate and other unallocated costs	**(2,577)**	(2,110)	(4,335)
Underlying operating profit	**22,282**	18,567	39,108
Amortisation of acquired intangibles	**(8,370)**	(8,341)	(18,195)
Rationalisation costs	**—**	(861)	(2,577)
Total operating profit	**13,912**	9,365	18,336
Finance income	**133**	26	196
Finance expense	**(3,711)**	(3,560)	(6,054)
Profit before taxation — continuing operations	**10,334**	5,831	12,478
Total liabilities by segment			
Services (classified as held for sale at June 2013)	**—**	(40,340)	(53,961)
European Pharmaceuticals	**(21,663)**	(25,157)	(24,985)
US Pharmaceuticals	**(6,413)**	(7,051)	(6,602)
Pharmaceuticals Research and Development	**(359)**	(315)	(804)
Segment liabilities	**(28,435)**	(72,863)	(86,352)
Corporate loans and revolving credit facility	**(32,985)**	(117,805)	(113,110)
Corporate accruals and other payables	**(2,233)**	(2,914)	(3,496)
Current and deferred tax liabilities	**(32,613)**	(33,700)	(37,552)
	(96,266)	(227,282)	(240,510)

Notes to the Financial Statements continued

for the six months ended 31 December 2013

3 Finance Income

	Six months ended		Year ended
	31.12.13	31.12.12	30.06.13
	£000	£000	£000
Finance income arising from:			
— Cash and cash equivalents	**98**	26	2
— Loans and receivables	**35**	—	71
	133	26	73

4 Finance Expense

	Six months ended		Year ended
	31.12.13	31.12.12	30.06.13
Underlying	**£000**	£000	£000
Finance expense arising from:			
— Financial liabilities at amortised cost	**1,801**	2,662	5,150
— Net interest on net defined benefit liability	**25**	10	1
— Foreign exchange losses	**585**	662	483
Underlying finance expense	**2,411**	3,334	5,634

	Six months ended		Year ended
	31.12.13	31.12.12	30.06.13
Non-Underlying	**£000**	£000	£000
Loss on extinguishment of debt	**1,213**	—	—
Unwinding of discounts on deferred and contingent consideration	**87**	226	297
Non-underlying finance expense	**1,300**	226	297
Total finance expense	**3,711**	3,560	5,931

5 Income Tax Expense

The tax charge for the six months ended 31 December 2013 has been based on the estimated effective rate for the year ending 30 June 2014 of 25.6% (six months ended 31 December 2012: 25.3%, year ended 30 June 2013: 18.9%).

6 Dividends

The final dividend for the year ended 30 June 2013 of 9.66 pence per share costing £8,420,000 has been paid in the period.

The Directors have declared an interim dividend of 4.75 pence per share (2012: 4.34 pence) costing £4,173,000 (2012: £3,780,000). It is payable on 8 April 2014 to Shareholders whose names are on the Register of Members at close of business on 14 March 2014. The Ordinary Shares will become ex-dividend on 12 March 2014.

As the dividend was declared after the end of the period being reported and in accordance with IAS 10 *'Events After the Balance Sheet Date'*, the interim dividend has not been accrued for in these financial statements. It will be shown as a deduction from equity in the financial statements for the year ending 30 June 2014.

7 Earnings per Share

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

	Six months ended		Year ended
	31.12.13	31.12.12	30.06.13
	Pence	Pence	Pence
Basic earnings per share			
— Underlying*	**18.24**	18.03	38.98
— continuing operations	**17.07**	13.12	29.27
— discontinued operations	**1.17**	4.91	9.71
— Basic	**54.26**	9.91	20.59
— continuing operations	**8.82**	5.01	12.47
— discontinued operations	**45.44**	4.90	8.12
Diluted earnings per share			
— Underlying*	**18.10**	17.99	38.71
— continuing operations	**16.94**	13.09	29.07
— discontinued operations	**1.16**	4.90	9.64
— Diluted	**53.86**	9.89	20.45
— continuing operations	**8.75**	5.00	12.39
— discontinued operations	**45.11**	4.89	8.06

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

	£000	£000	£000
Earnings for underlying basic and underlying diluted earnings per share	**15,903**	15,669	33,913
— continuing operations	**14,883**	11,398	25,464
— discontinued operations	**1,020**	4,271	8,449
Earnings for basic and diluted earnings per share	**47,319**	8,612	17,913
— continuing operations	**7,688**	4,355	10,850
— discontinued operations	**39,631**	4,257	7,063

	No.	No.	No.
Weighted average number of ordinary shares for basic earnings per share	**87,206,785**	86,924,375	87,011,352
Impact of share options	**646,885**	184,984	587,258
Weighted average number of ordinary shares for diluted earnings per share	**87,853,670**	87,109,359	87,598,610

* Underlying measures exclude non-underlying items as defined on the Condensed Consolidated Income Statement

8 Underlying Operating Profit and Profit before Taxation

	Six months ended		Year ended
	31.12.13	31.12.12	30.06.13
	£000	£000	£000
Operating profit			
Underlying operating profit is calculated as follows:			
Operating profit	**13,912**	9,365	18,336
Amortisation of intangible assets acquired as a result of business combinations	**8,370**	8,341	18,195
Rationalisation costs	**—**	861	2,577
	22,282	18,567	39,108
Profit before taxation			
Underlying profit before taxation is calculated as follows:			
Profit before taxation	**10,334**	5,831	12,478
Amortisation of intangible assets acquired as a result of business combinations	**8,370**	8,341	18,195
Rationalisation costs	**—**	861	2,577
Unwinding of discounts on deferred and contingent consideration	**87**	226	297
Loss on extinguishment of debt	**1,213**	—	—
	20,004	15,259	33,547

Notes to the Financial Statements continued

for the six months ended 31 December 2013

9 Analysis of Net Borrowings

	As at 31.12.13 £000	As at 31.12.12 £000	As at 30.06.13 £000
Bank loans and overdraft	**(32,524)**	(117,805)	(113,110)
Finance leases and hire purchase contracts	**(461)**	(762)	(480)
Cash and cash equivalents	**22,506**	16,603	32,791
	(10,479)	(101,964)	(80,799)

On 30 September 2013, we repaid all of our fixed term loan, and part of our revolving credit facility, a total repayment of £81.1 million.

10 Acquisition of DermaPet, Inc.

On 22 October 2010, the Group acquired 100% of the share capital of *DermaPet ®,* Inc., a Florida based business which develops and markets a range of dermatological preparations, including shampoos, conditioners and ear products, for the US and overseas companion animal markets. These veterinary products are marketed and distributed through the same channels as Dechra's current US product portfolio.

In the six months to 31 December 2012, the Group paid a further US$16.0 million (£10.0 million) in respect of the acquisition of *DermaPet*. A payment of US$15.0 million was made which related to the achievement of a contingent milestone target, the remaining US$1.0 million related to deferred consideration which was paid on the second anniversary of the completion date.

The maximum further consideration payable is US$6.0 million of which US$5.0 million is contingent upon revenue exceeding US$20.0 million in any rolling 12 month period commencing on the first anniversary of completion and ending on the sixth anniversary of completion. The remaining US$1.0 million is deferred until the fourth anniversary of completion.

11 Foreign Exchange Rates

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

	Average rate for the six months ended **31.12.13**	31.12.12	Closing rate at 31.12.13
Danish Krone	**8.7954**	9.3154	8.9315
US Dollar	**1.5839**	1.5926	1.6488
Euro	**1.1794**	1.2503	1.1976

12 Related Party Transactions

There have been no new related party transactions that have taken place in the first six months of the current financial year.

13 Discontinued Operations

The divestment of the Services Segment was completed on 16 August 2013 for sale proceeds of £91.2 million. The costs to sell were £1.5 million (of which £1.4 million was incurred in the prior year), with an associated tax deduction of £0.1 million.

The Services businesses constitute a reporting segment in accordance with IFRS 8.

The results of the discontinued operations included in the profit for the period are set out below. The Segment was not a discontinued operation or classified as held for sale at 31 December 2012. The comparative Condensed Consolidated Income Statement has been restated to show the discontinued operation separately from continuing operations.

	Six months ended		Year ended
	31.12.13	31.12.12	30.06.13
Profit for the period from discontinued operations	**£000**	£000	£000
Revenue	**48,259**	167,739	333,244
Cost of sales	**(44,519)**	(152,853)	(303,389)
Gross profit	**3,740**	14,886	29,855
Distribution costs	**(1,669)**	(6,291)	(12,540)
Administrative expenses	**(755)**	(2,875)	(6,203)
Non-underlying expenses*	**—**	(19)	(38)
Operating profit	**1,316**	5,701	11,074
Net finance expense	**—**	(3)	(5)
Profit before taxation from operating activities	**1,316**	5,698	11,069
Income tax expense	**(296)**	(1,441)	(2,649)
Profit for the year	**1,020**	4,257	8,420
Profit on disposal and related expenses	**38,711**	—	(1,467)
Tax on profit on disposal and related expenses	**(100)**	—	110
Total profit for the year from discontinued operations attributable to owners of the parent	**39,631**	4,257	7,063

* Non-underlying expenses comprise amortisation on acquired intangibles.

See note 7 for the Earnings per Share split between continuing and discontinued operations.

	Six months ended		Year ended
	31.12.13	31.12.12	30.06.13
Cash flows from discontinued operations	**£000**	£000	£000
Net cash (outflows)/inflows from operating activities	**(14,210)**	(13,004)	1,305
Net cash inflows/(outflows) from investing activities	**89,626**	(363)	(810)
Net cash outflows from financing activities (including repayment of intercompany funding)	**—**	(117)	(508)

Effect of the disposal on the financial position of the Group

Net assets and liabilities	**£000**
Goodwill	**(2,621)**
Intangible assets	**(1,049)**
Property, plant and equipment	**(1,677)**
Inventories	**(29,274)**
Trade and other receivables	**(73,330)**
Trade and other payables	**55,569**
Net assets and liabilities	**(52,382)**
Consideration received	**87,500**
Working capital adjustment	**3,702**
Expenses related to disposal (including those accrued in the prior year)	**(1,576)**
Net cash inflow	**89,626**

Independent Review Report to Dechra Pharmaceuticals PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the Half-Yearly Financial Report for the six months ended 31 December 2013 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Shareholders' Equity, the Condensed Consolidated Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the Half-Yearly Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules (the DTR) of the UK's Financial Conduct Authority (the UK FCA). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' Responsibilities

The Half-Yearly Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half-Yearly Financial Report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this Half-Yearly Financial Report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Half-Yearly Financial Report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Half-Yearly Financial Report for the six months ended 31 December 2013 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Graham Neale
for and on behalf of KPMG LLP
Chartered Accountants

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25 February 2014

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