Dechra
Pharmaceuticals PLC

Half-Yearly Financial Report 2017

for the six months ended 31 December 2016

Monday, 27 February 2017

"Our core portfolio continues to grow, the enhanced product pipeline is delivering new products and good progress has been made on the rationalisation and integration of our recent acquisitions."

Ian Page, Chief Executive Officer

Highlights

- Total Group revenue of £172.6 million, a growth of 34.7% at Constant Exchange Rate (CER) (55.9% at Actual Exchange Rate (AER)).
- Core (excluding acquisitions) European Pharmaceuticals (EU Pharmaceuticals) Segment revenue growth of 5.9% at CER (20.0% at AER).
- Core North American Pharmaceuticals (NA Pharmaceuticals) Segment revenue growth of 10.2% at CER (31.7% at AER).
- Sales growth across all product groups; Companion Animal Products (CAP), Food producing Animal Products (FAP), Equine and Diets.
- Strong performance from recently acquired businesses, exceeding our expectations.
- Underlying operating profit increased by 28.6% at CER (47.1% at AER).
- Net cash inflow from underlying operating activities of £43.9 million with a cash conversion of 124.0%.

Financial Summary

	Six months ended 31.12.16 £m	Restated Six months ended 31.12.15 £m	Growth at actual exchange rate	**Growth at constant exchange rate**
Revenue	**172.6**	110.7	55.9%	**34.7%**
Underlying				
Gross profit	**92.2**	63.5	45.2%	**27.2%**
Gross profit %	***53.4%***	57.4%		
Operating profit	**38.6**	26.3	47.1%	**28.6%**
EBITDA	**41.6**	28.7	45.0%	**27.7%**
Diluted EPS	**31.25p**	21.99p	42.1%	**24.5%**
Reported				
Gross profit	**88.2**	62.5	41.2%	**24.0%**
Gross profit %	***51.1%***	56.4%		
Operating profit	**17.6**	15.9	10.7%	
Diluted EPS	**13.65p**	12.74p	7.1%	

The Group presents a number of non-GAAP Alternative Performance Measures (APM's). This allows investors to understand better the underlying performance of the Group, by excluding amortisation of acquired intangibles and impairment (if any) of acquired intangibles, acquisition expenses, fair value of uplift of inventory acquired through business combinations, rationalisation costs, loss on extinguishment of debt, and fair value and other movements on deferred and contingent consideration. EBITDA is defined as underlying earnings before interest, tax, depreciation and amortisation.

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Notes: Foreign Exchange Rates

FY2017 H1 Closing	EUR 1.1680: GBP 1.0	USD 1.2311: GBP 1.0
FY2017 H1 Average	EUR 1.1698: GBP 1.0	USD 1.2886: GBP 1.0
FY2016 H1 Average	EUR 1.3942: GBP 1.0	USD 1.5376: GBP 1.0
FY2016 Average	EUR 1.3432: GBP 1.0	USD 1.4870: GBP 1.0

Half-Yearly Financial Report 2017
for the six months ended 31 December 2016

Introduction
The Group has performed strongly throughout the first six months of the financial year ending 30 June 2017 (the Period). This result has been driven by a solid revenue performance in our core businesses, good market penetration from recently launched pipeline products and a strong performance from our recent acquisitions. The operating profit performance has been enhanced by the successful rationalisation and integration of these acquisitions, prudent cost control in our core businesses and a significant favourable foreign exchange tail wind.

All growth rates for both underlying and reported financial results included in this report are at CER, unless otherwise stated. This shows the year on year growth rates as if exchange rates had remained the same as in the previous year.

Financial Review
Group revenue in the Period was £172.6 million, a growth of 34.7%.

- Total core revenue grew 6.9% to £131.7 million, with core growth in the EU Pharmaceuticals of 5.9% and 10.2% in NA Pharmaceuticals. Excluding a decline in third party contract manufacturing, core EU Pharmaceuticals revenue grew by 8.7%
- The acquisitions of Genera d.d (Genera), Laboratorios Brovel S.A. de C.V. (Brovel), and Putney Inc. (Putney); and the acquisition of the business and assets of Apex Laboratories Pty Ltd (Apex) contributed a combined revenue of £40.9 million, a growth of £30.9 million, the difference of £10.0 million being the prior year Genera contribution and currency movements. Genera and Apex (included in EU Pharmaceuticals) accounted for £5.9 million of this, with Brovel and Putney (included in NA Pharmaceuticals) contributing £25.0 million.

Revenue	**Six months ended 31.12.16 £m**	Six months ended 31.12.15 £m	Growth at actual exchange rate	**Growth at constant exchange rate**
EU Pharmaceuticals - Core	**99.4**	82.8	20.0%	**5.9%**
EU Pharmaceuticals - Acquisitions	**11.3**	3.4	232.4%	**173.6%**
EU Pharmaceuticals Total	**110.7**	86.2	28.4%	**12.5%**
NA Pharmaceuticals- Core	**32.3**	24.5	31.7%	**10.2%**
NA Pharmaceuticals- Acquisitions	**29.6**	–	–	**–**
NA Pharmaceuticals Total	**61.9**	24.5	152.7%	**112.3%**
Total	**172.6**	110.7	55.9%	**34.7%**

Group gross margin percentage in the Period declined to 53.4% (2016: 57.4%) due to the expected dilution from the Putney and Genera sales. Group Sales, General and Administration (SG&A) expenses decreased as a percentage of sales to 37.1% (2016: 38.4%).

Group underlying EBIT in the Period was £38.6 million, a growth of 28.6%, with underlying EBIT margin slightly lower at 22.4% (2016: 23.7%) reflecting the expected lower gross margin following the acquisitions, as disclosed above.

- Core EU Pharmaceuticals underlying EBIT grew 6.9% to £28.6 million, with underlying EBIT margin increasing to 28.8% (2016: 28.6%). Core NA Pharmaceuticals underlying EBIT grew 5.8% to £11.0 million, with underlying EBIT margin moving to 34.1% (2016: 35.5%).
- The acquisitions of Genera, Brovel, Putney and Apex contributed a combined underlying EBIT of £9.3 million, a growth of £7.7 million, the difference of £1.6 million being the prior year Genera contribution and currency movements. Genera and Apex (EU Pharmaceuticals) accounted for £1.7 million of this, with Brovel and Putney (NA Pharmaceuticals) contributing £6.0 million.
- Pharmaceuticals R&D underlying expenditure increased to £6.6 million, a growth of 51.5%. This includes both core R&D activities and the costs of the R&D activities acquired with Genera, Brovel, Putney and Apex, and represents an underspend compared to management expectations. Corporate costs increased 17.7% to £3.6 million.

All product categories posted growth in revenue in the Period:

Revenue	**Six months ended 31.12.16 £m**	Six months ended 31.12.15 £m	Growth at actual exchange rate	**Growth at constant exchange rate**
CAP	**104.9**	62.6	67.6%	**44.1%**
Equine	**13.7**	9.5	44.2%	**27.4%**
FAP	**22.5**	15.4	46.1%	**24.7%**
Sub-total pharmaceuticals	**141.1**	87.5	61.3%	**38.9%**
Diets	**13.9**	11.6	19.8%	**1.7%**
Other	**17.6**	11.6	51.7%	**36.2%**
Total	**172.6**	110.7	55.9%	**34.7%**

'Other' includes third party contract manufacturing revenues and other non-veterinary businesses in Genera.

Non-underlying items of £21.2 million include amortisation of intangibles of £14.9 million, acquisition and integration costs of £2.1 million, fair value uplift of inventory on acquisition of £4.0 million and other of £0.2 million.

Net underlying finance expense decreased by 32.2% to £1.1 million (2016: £1.4 million) with the increase in interest on debt to fund acquisitions being offset by foreign exchange gains of £0.8 million. Underlying profit before tax increased by £12.6 million (at AER) to £37.5 million reflecting the growth in EBIT from the core business and acquisitions, and reduction in interest costs. The Group effective tax rate (ETR) was broadly constant at 21.9% (2016: 21.7%), the underlying ETR is 22.2% (2016: 22.3%). Underlying diluted EPS grew strongly by 42.1% (at AER) to 31.25 pence (2016: 21.99 pence). Reported diluted EPS grew by 7.1% (at AER) to 13.65 pence (2016: 12.74 pence).

Net cash inflow from operating activities was £41.3 million with a cash conversion ratio of 124.0 %. EBITDA increased to £41.6 million, an increase of 27.7%. Net debt increased to £138.0 million (30 June 2016: £116.6 million), including the additional debt funding for acquisitions and foreign exchange impacts, with the net debt to EBITDA covenant at 1.9 times.

Dividend

The Board is pleased to declare an interim dividend of 6.11 pence per share, which represents a growth of 10.0 % compared to the prior year.

The dividend will be payable on 7 April 2017 to shareholders on the Register at 10 March 2017. The ordinary shares will become ex-dividend on 9 March 2017.

Operational Review

European Pharmaceuticals

During the Period our EU Pharmaceuticals Segment increased its total reported revenues by 12.5%. Our core EU Pharmaceuticals business, excluding third party contract manufacturing, grew at 8.7%. This was predominantly driven by CAP growth of 12.9% with strong performances from the majority of our focus strategic therapy areas. Several of our key products grew significantly, especially *Cardisure*®, our anaesthetic and analgesic range and *Zycortal*®, a novel endocrine product launched last year which has gained excellent market penetration.

Equine core sales increased by 8.1%, predominantly driven by European launches of *Osphos*®, our unique equine lameness product. We have also delivered, for the first time in three years, total growth from our pet diet range *Specific*® which increased by 1.7%. This follows the transfer of the products into a new manufacturer and the reformulation of several lines in the range. The previously reported issue of a reduction in palatability of a number of therapeutic cat diets post reformulation has now been resolved with the successful reintroduction of the products to the market.

FAP sales from our core business increased by 2.5%, a pleasing performance in light of the planned reduction in production of our injectable antibiotics due to modifications in the manufacturing suite. Overall, antibiotic sales grew by 0.9%. The decline in FAP sales reported last year in Germany, due to antimicrobial resistance concerns, slowed considerably. However, the issue remains that antibiotic sales continue to be under pressure, especially with recent government focus in Denmark and the UK.

Third party contract manufacturing revenues, which are reported under our EU Pharmaceuticals Segment, declined by 14.3% in the Period. This was predominantly due to one major account reducing its demand and by the rationalisation of a number of lower value third party contracts to prioritise production of Dechra's own products.

The overall EU Pharmaceuticals Segment revenue benefited from a £11.3 million (at AER) contribution from the acquisitions of Genera, the Croatian business acquired in October 2015, and the Australian business, Apex, completed in October 2016 (more detail on acquisitions is covered later in this report).

North American Pharmaceuticals

Total reported NA Pharmaceuticals Segment revenue increased by 112.3%. Core sales of both CAP and Equine products, the only categories we operate in within the USA, increased revenue by 10.2%, a good performance as the prior year comparator benefited from sales of a Levothyroxine based product which, along with competitor products, was withdrawn from the market by the FDA. *Zycortal* and *Vetivex*®, a range of intravenous fluids for critical care, were both successfully launched in the USA within the Period. Equine sales grew by 67.4%, almost entirely driven by an excellent performance from *Osphos*.

Both our Mexican (acquired in January 2016) and Canadian businesses performed well, collectively delivering 135.0 % growth over the prior year.

The overall Segment revenue benefited from an out performance by Putney, the USA based business acquired in 2016. Market penetration of Putney's range of products improved from the additional focus provided by Dechra's sales and marketing team. Furthermore, there was a one off benefit from opening new sales channels for these products, resulting in a US$3.0 million uplift from stock sold into the distribution chain.

Acquisition

On 14 October 2016, we completed the acquisition of the business and assets of Apex, based in Somersby near Sydney, Australia for AUS$55.0 million (£34.2 million). The acquisition, which is expected to be earnings enhancing in the first 12 months of ownership, manufactures, markets and sells branded non-proprietary prescription and other related companion animal products in Australia and New Zealand. Prior to the acquisition it had revenues for the year ended 30 June 2016 of AUS$14.8 million (£8.4 million) and operating profit of AUS$5.2 million (£3.0 million). The principal reason for the acquisition is to provide Dechra with direct access to the established and growing Australian CAP and Equine markets, in which Dechra currently operates through partners. We have recruited a new, highly experienced General Manager for Australia and New Zealand who will commence employment in March 2017, replacing the retiring owner manager.

Rationalisation plans for Brovel, Genera and Putney, all acquired in the preceding financial year, are progressing ahead of our expectations. Significant cost savings have been delivered from workforce rationalisations at both Genera and Putney. The integrated teams are now performing well and our new employees are an asset to the Group. The pipelines of both companies, a key reason for our investments, are making good progress.

Pipeline Delivery

During the Period, as announced on 9 September 2016, we received FDA approval for a generic antibiotic Amoxi-clav. This product was the first major approval from the Putney pipeline following the acquisition. We anticipate additional approvals from this key acquisition in the second half of the financial year.

Our core pipeline delivery continued with the approval of *Altidox*®, a new FAP generic water soluble antibiotic, in 13 EU territories. *Osphos* received approvals in Canada and Australia. Successful registrations were also gained from the Genera pipeline including Genoxytab-F, a FAP intra-uterine antibiotic, in four EU territories, and Canihelmin, a canine de-worming tablet, in six EU territories. In addition, Apex received its first registration post acquisition, for a liquid formulation of Benazepril, a CAP cardiac medication.

Overall the pipeline remains strong, especially with the enhancement of products from recent acquisitions. Further investment has been made in people and systems to improve the effectiveness and efficiency of our development activities. A number of new pharmaceutical product ideas have been screened; it is hoped that one or more of these new and exciting opportunities will be introduced to the pipeline before the end of this financial year.

IT

The implementation of the Oracle Group ERP solution has fallen behind schedule with 'go-live' now expected in the first half of the 2018 financial year. There are no fundamental issues with the project; however, detailed work flows and test plans identified the need to extend the implementation timetable.

People

A number of appointments to the Board have been made throughout the Period. Following his engagement as a Non-Executive Director in April 2016, Tony Rice was appointed as Chairman with effect from our Annual General Meeting on 21 October 2016. This follows the retirement of Mike Redmond who stepped down from the Board after 15 years' service. An additional Non-Executive Director, Dr Lawson Macartney joined the Board with effect from 1 December 2016. Lawson, a qualified veterinarian, has a wealth of experience in product and drug development. His appointment will provide complementary technical skills to the Board. We announced the appointment of a new Chief Financial Officer in August 2016; Richard Cotton, previously Chief Financial Officer at Consort Medical plc, Vitec Group plc and Wagon plc, commenced employment in January 2017. Septima Maguire, who has done an excellent job as Acting Chief Financial Officer, will revert to her former role as Group Financial Controller, reporting to Richard.

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 is accountable for risk management and regularly reviews 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 2016 Annual Report and Accounts. The Group's principal risks and their mitigation are described on pages 56 to 59 of the 2016 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 remains competitive and the launch of alternative products in our key therapeutic sectors is a key risk. We continue to mitigate this risk by closely monitoring the market and investing in lifecycle management strategies for our key products. In Europe, competitor products to *Soludox*®, *Forthyron*®, *Octacillin*® and *Equipalazone*® have been launched within the last year. Our defence strategies have generally proven successful with *Soludox* and *Forthyron* continuing to deliver growth, although both *Octacillin* and *Equipalazone* have suffered some decline.

Currency Movements

We are an international business that trades in many currencies and are therefore exposed to volatility in exchange rates. The Euro and US Dollar are two of the major currencies in which we trade, given the current global political and economic environment we expect continued currency volatility that could impact our results. In the first six months of the year we made foreign exchange transactional gains of £0.8 million on trading activities (compared to a loss of £0.7 million in the previous period) and translational gains of £9.5 million on revaluing our balance sheet at the half year exchange rate.

Reduction in Antibiotic Use

In Western Europe there is a continued focus on prudent prescribing of antibiotics due to concerns about antibiotic resistance. This trend is expected to continue in Western Europe and has impacted our FAP business, especially in Germany. In Denmark and the UK, where there is a continued high level of focus, we are also experiencing decline. We believe our risk is minimal in other European territories because our market shares are low and our FAP performance overall is stable or growing. Our dedicated FAP business unit, which was established in 2015, has delivered an increase in FAP revenue of 24.7% in the first half of the year (including acquisitions). The acquisition of Genera in October 2015 also mitigates this risk by providing an entry to the important vaccines segment, broadening our FAP portfolio and increasing our presence in emerging markets.

Supply Chain Relationships

Relationships with third party suppliers of raw materials and finished products remain a risk. We mitigate this risk by maintaining buffer stocks, dual sourcing arrangements for key products, and monitoring the performance of our key suppliers. We are continuing to strengthen our supply chain by implementing a global sales and operations planning process across Dechra to deliver improved supply chain performance. We have also strengthened our overall management of the key contract manufacturing organisations that supply Dechra to ensure better supply continuity.

Outlook

Despite the risks and uncertainties outlined above, the Group continues to perform well with current trading meeting management expectations. Our core portfolio continues to grow, the enhanced product pipeline is delivering new products and good progress has been made on the rationalisation and integration of our recent acquisitions. The Board therefore remains confident in our strategy, our future prospects and our expectations for full year performance.

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
27 February 2017

Richard Cotton
Chief Financial Officer

Forward-Looking Statements
This document contains certain forward-looking statements which reflect the knowledge and information available to the Company during the 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 thereby involving a degree of uncertainty. Therefore, nothing in this document should be construed as a profit forecast by the Company.

About Dechra
Dechra is an international specialist veterinary pharmaceuticals and related products business. Our expertise is in the development, manufacture, and sales and marketing of high quality products exclusively for veterinarians worldwide. The majority of Dechra's products are focused on key therapeutic categories where we have leading market positions, and many of our products are used to treat medical conditions for which there is no other effective solution or have a clinical or dosing advantage over competitive products.

For more information please visit: www.dechra.com or corporate.enquiries@dechra.com.

Stock Code: Full Listing (Pharmaceuticals): DPH.

Trademarks
Dechra and the Dechra "D" logo are registered trademarks of Dechra Pharmaceuticals PLC.

Condensed Consolidated Income Statement
for the six months ended 31 December 2016

		Six months ended 31.12.16			Restated Six months ended 31.12.15			Year ended 30.06.16		
	Note	Underlying £000	Non-underlying items* (notes 4 & 8) £000	Total £000	Underlying £000	Non-underlying items* (notes 4 & 8) £000	Total £000	Underlying £000	Non-underlying items* (notes 4 & 8) £000	Total £000
Revenue	2	**172,564**	**–**	**172,564**	110,736	–	110,736	247,562	–	247,562
Cost of sales		**(80,353)**	**(4,004)**	**(84,357)**	(47,233)	(1,039)	(48,272)	(109,052)	(6,070)	(115,122)
Gross profit		**92,211**	**(4,004)**	**88,207**	63,503	(1,039)	62,464	138,510	(6,070)	132,440
Selling, general and administrative expenses		**(46,955)**	**(16,996)**	**(63,951)**	(33,226)	(9,326)	(42,552)	(75,298)	(27,294)	(102,592)
Research and development expenses		**(6,631)**	**–**	**(6,631)**	(4,012)	–	(4,012)	(10,355)	–	(10,355)
Operating profit	2	**38,625**	**(21,000)**	**17,625**	26,265	(10,365)	15,900	52,857	(33,364)	19,493
Finance income	3	**985**	**–**	**985**	8	–	8	21	–	21
Finance expense	4	**(2,102)**	**(180)**	**(2,282)**	(1,362)	(311)	(1,673)	(3,200)	(1,766)	(4,966)
Profit before taxation	2	**37,508**	**(21,180)**	**16,328**	24,911	(10,676)	14,235	49,678	(35,130)	14,548
Income taxes	5	**(8,315)**	**4,746**	**(3,569)**	(5,545)	2,456	(3,089)	(11,288)	9,252	(2,036)
Profit for the period		**29,193**	**(16,434)**	**12,759**	19,366	(8,220)	11,146	38,390	(25,878)	12,512
Attributable to:										
Owners of the parent		**29,172**	**(16,431)**	**12,741**	19,520	(8,213)	11,307	38,376	(25,708)	12,668
Non-controlling interests		**21**	**(3)**	**18**	(154)	(7)	(161)	14	(170)	(156)
		29,193	**(16,434)**	**12,759**	19,366	(8,220)	11,146	38,390	(25,878)	12,512
Earnings per share										
Basic	7			**13.73p**			12.85p			14.17p
Diluted	7			**13.65p**			12.74p			14.07p
Dividend per share (interim and final)	6			**6.11p**			5.55p			18.46p

* Non-underlying items comprise amortisation of acquired intangibles and impairment (if any) of acquired intangibles, acquisition expenses, fair value of uplift of inventory acquired through business combinations, rationalisation costs, loss on extinguishment of debt, and fair value and other movements on deferred and contingent consideration.

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 31 December 2016

	Six months ended		Year ended
	31.12.16	31.12.15	30.06.16
	£000	£000	£000
Profit for the period	**12,759**	11,146	12,512
Other comprehensive income:			
Items that will not be subsequently recycled to the profit or loss:			
Remeasurement of defined benefit pension scheme	**268**	22	(1,551)
Income tax relating to components of other comprehensive income	**(55)**	–	385
	213	22	(1,166)
Items that may be subsequently recycled to the profit or loss:			
Effective portion of changes in fair value of cash flow hedges	**–**	(89)	(154)
Cash flow hedges recycled to income statement	**18**	157	233
Gains/(Losses) arising on available for sale financial assets	**(172)**	(329)	(450)
Foreign currency translation differences for foreign operations	**9,599**	6,141	32,116
Income tax relating to components of other comprehensive income	**27**	54	1,234
	9,472	5,934	32,979
Total comprehensive income for the period	**22,444**	17,102	44,325
Attributable to:			
Owners of the parent	**22,366**	17,263	44,202
Non-controlling interests	**78**	(161)	123
	22,444	17,102	44,325

Condensed Consolidated Statement of Financial Position
as at 31 December 2016

ASSETS	Note	As at 31.12.16 £000	As at 31.12.15 £000	As at 30.06.16 £000
Non-current assets				
Intangible assets		**397,569**	183,590	360,381
Property, plant and equipment		**44,172**	28,233	37,718
Deferred tax assets		**432**	–	197
Total non-current assets		**442,173**	211,823	398,296
Current assets				
Inventories		**52,038**	40,277	54,375
Trade and other receivables		**71,667**	42,684	68,938
Cash and cash equivalents	9	**49,179**	45,132	39,142
Total current assets		**172,884**	128,093	162,455
Total assets		**615,057**	339,916	560,751
LIABILITIES				
Current liabilities				
Borrowings		**–**	(1,935)	(1,672)
Trade and other payables		**(61,140)**	(35,543)	(60,220)
Deferred and contingent consideration		**(824)**	(1,337)	(467)
Current tax liabilities		**(5,023)**	(10,479)	(3,897)
Total current liabilities		**(66,987)**	(49,294)	(66,256)
Non-current liabilities				
Borrowings		**(187,201)**	(61,034)	(154,093)
Deferred and contingent consideration		**(3,226)**	(3,678)	(3,166)
Employee benefit obligations		**(4,150)**	(1,507)	(3,721)
Provisions		**(3,886)**	(2,625)	(3,334)
Deferred tax liabilities		**(61,965)**	(16,577)	(53,569)
Total non-current liabilities		**(260,428)**	(85,421)	(217,883)
Total liabilities		**(327,415)**	(134,715)	(284,139)
Net assets		**287,642**	205,201	276,612
EQUITY				
Issued share capital		**930**	880	927
Share premium account		**172,726**	125,344	172,451
Own shares		**(21)**	(21)	(21)
Hedging reserve		**–**	(38)	(15)
Foreign currency translation reserve		**15,063**	(21,406)	5,524
Merger reserve		**1,770**	1,770	1,770
Retained earnings		**95,698**	96,585	93,995
Total equity attributable to equity holders of the parent		**286,166**	203,114	274,631
Non-controlling interests		**1,476**	2,087	1,981
Total equity		**287,642**	205,201	276,612

Condensed Consolidated Statement of Changes in Shareholders' Equity

for the six months ended 31 December 2016

	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**	Non-controlling interests £000	**Total equity £000**
Six months ended 31 December 2015										
At 1 July 2015	880	124,801	(303)	(94)	(27,547)	1,770	94,981	**194,488**	–	**194,488**
Profit for the period	–	–	–	–	–	–	11,307	**11,307**	(161)	**11,146**
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	(71)	–	–	–	**(71)**	–	**(71)**
Losses arising on available for sale financial assets	–	–	–	–	–	–	(263)	**(263)**	–	**(263)**
Foreign currency translation differences for foreign operations	–	–	–	–	6,141	–	–	**6,141**	–	**6,141**
Remeasurement of defined benefit pension scheme, net of tax	–	–	–	–	–	–	22	**22**	–	**22**
Cash flow hedges recycled to income statement, net of tax	–	–	–	127	–	–	–	**127**	–	**127**
Total comprehensive income for the period	–	–	–	56	6,141	–	11,066	**17,263**	(161)	**17,102**
Transactions with owners										
Dividends paid	–	–	–	–	–	–	(10,401)	**(10,401)**	–	**(10,401)**
Share-based payments	–	–	–	–	–	–	1,221	**1,221**	–	**1,221**
Shares issued	–	543	–	–	–	–	–	**543**	–	**543**
Acquisition of non-controlling interest	–	–	–	–	–	–	–	**–**	2,248	**2,248**
Own shares reserve recycled to retained earnings	–	–	282	–	–	–	(282)	**–**	–	**–**
Total contributions by and distribution to owners	–	543	282	–	–	–	(9,462)	**(8,637)**	2,248	**(6,389)**
At 31 December 2015	880	125,344	(21)	(38)	(21,406)	1,770	96,585	**203,114**	2,087	**205,201**
Year ended 30 June 2016										
At 1 July 2015	880	124,801	(303)	(94)	(27,547)	1,770	94,981	**194,488**	–	**194,488**
Profit for the period	–	–	–	–	–	–	12,668	**12,668**	(156)	**12,512**
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	(154)	–	–	–	**(154)**	–	**(154)**
Losses arising on available for sale financial assets	–	–	–	–	–	–	(450)	**(450)**	–	**(450)**
Foreign currency translation differences for foreign operations	–	–	–	–	33,071	–	–	**33,071**	279	**33,350**
Remeasurement of defined benefit pension scheme, net of tax	–	–	–	–	–	–	(1,166)	**(1,166)**	–	**(1,166)**
Cash flow hedges recycled to income statement, net of tax	–	–	–	233	–	–	–	**233**	–	**233**
Total comprehensive income for the period	–	–	–	79	33,071	–	11,052	**44,202**	123	**44,325**
Transactions with owners										
Dividends paid	–	–	–	–	–	–	(15,292)	**(15,292)**	–	**(15,292)**
Share-based payments	–	–	–	–	–	–	3,536	**3,536**	–	**3,536**
Shares issued	47	47,650	–	–	–	–	–	**47,697**	–	**47,697**
Acquisition of non-controlling interest	–	–	–	–	–	–	–	**–**	1,858	**–**
Own shares purchased	–	–	282	–	–	–	(282)	**–**	–	**–**
Total contributions by and distribution to owners	47	47,650	282	–	–	–	(12,038)	**35,941**	1,858	**37,799**
At 30 June 2016	927	172,451	(21)	(15)	5,524	1,770	93,995	**274,631**	1,981	**276,612**
Six months ended 31 December 2016										
At 1 July 2016	**927**	**172,451**	**(21)**	**(15)**	**5,524**	**1,770**	**93,995**	**274,631**	**1,981**	**276,612**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**12,741**	**12,741**	**18**	**12,759**
Recycle of losses arising on available for sale financial assets	**–**	**–**	**–**	**–**	**–**	**–**	**(142)**	**(142)**	**–**	**(142)**
Foreign currency translation differences for foreign operations	**–**	**–**	**–**	**–**	**9,539**	**–**	**–**	**9,539**	**60**	**9,599**
Remeasurement of defined benefit pension scheme, net of tax	**–**	**–**	**–**	**–**	**–**	**–**	**213**	**213**	**–**	**213**
Cash flow hedges recycled to income statement, net of tax	**–**	**–**	**–**	**15**	**–**	**–**	**–**	**15**	**–**	**15**
Total comprehensive income for the period	**–**	**–**	**–**	**15**	**9,539**	**–**	**12,812**	**22,366**	**78**	**22,444**
Transactions with owners										
Dividends paid	–	**–**	**–**	**–**	**–**	**–**	**(11,979)**	**(11,979)**	**–**	**(11,979)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**870**	**870**	**–**	**870**
Shares issued	**3**	**275**	**–**	**–**	**–**	**–**	**–**	**278**	**–**	**278**
Acquisition of non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(583)**	**(583)**
	3	**275**	**–**	**–**	**–**	**–**	**(11,109)**	**(10,831)**	**(583)**	**(11,414)**
At 31 December 2016	**930**	**172,726**	**(21)**	**–**	**15,063**	**1,770**	**95,698**	**286,166**	**1,476**	**287,642**

Condensed Consolidated Statement of Cash Flows
for the six months ended 31 December 2016

	Note	Six months ended 31.12.16 £000	Six months ended 31.12.15 £000	Year ended 30.06.16 £000
Cash flows from operating activities				
Operating Profit		**17,625**	15,900	19,493
Non-underlying items		**21,000**	10,365	33,364
Underlying operating profit		**38,625**	26,265	52,857
Adjustments for:				
Depreciation		**2,435**	1,594	3,763
Amortisation and impairment		**538**	849	3,890
Loss on disposal of intangible assets		**332**	5	–
Loss on disposal of tangible assets		**59**	12	69
Equity-settled share-based payments expense		**870**	1,044	2,058
Underlying operating cash flow before changes in working capital		**42,859**	29,769	62,637
Decrease/(increase) in inventories		**3,855**	(1,876)	5,712
Decrease/(increase) in trade and other receivables		**1,615**	(902)	(16,393)
Increase/(decrease) in trade and other payables		**2,119**	214	8,571
Cash generated from operating activities before interest and taxation		**50,448**	27,205	60,527
Interest paid		**(2,075)**	(442)	(1,393)
Income taxes paid		**(4,492)**	(2,861)	(11,483)
Net cash inflow from underlying operating activities		**43,881**	23,902	47,651
Cash outflows in respect of non-underlying items		**(2,552)**	(580)	(4,076)
Net cash inflow from operating activities		**41,329**	23,322	43,575
Cash flows from investing activities				
Interest received		**13**	1	33
Acquisition of subsidiaries (net of cash acquired)	10	**(34,491)**	(30,004)	(166,173)
Acquisition of non-controlling interests		**(583)**	–	(390)
Purchase of property, plant and equipment		**(1,589)**	(1,479)	(2,802)
Capitalised development expenditure		**(346)**	(105)	(570)
Purchase of other intangible non-current assets		**(1,449)**	(1,436)	(4,133)
Net cash outflow from investing activities		**(38,445)**	(33,023)	(174,035)
Cash flows from financing activities				
Proceeds from the issue of share capital		**278**	543	47,697
New borrowings		**25,000**	20,678	103,841
Expense of raising new borrowing facilities		**(150)**	–	(360)
Repayment of borrowings		**(5,861)**	(606)	(10,572)
Dividends paid		**(11,979)**	(10,401)	(15,292)
Net cash inflow from financing activities		**7,288**	10,214	125,314
Net increase/(decrease) in cash and cash equivalents		**10,172**	513	(5,146)
Cash and cash equivalents at start of period		**39,142**	45,948	45,948
Exchange differences on cash and cash equivalents		**(135)**	(1,329)	(1,660)
Cash and cash equivalents at end of period		**49,179**	45,132	39,142
Reconciliation of net cash flow to movement in net (borrowings)/cash				
Net increase/(decrease) in cash and cash equivalents		**10,172**	513	(5,146)
Repayment of borrowings		**5,861**	606	10,572
New borrowings		**(25,000)**	(20,678)	(103,841)
Expenses of refinancing borrowing facilities		**150**	–	360
Acquisition of subsidiary borrowings		–	(8,578)	(15,027)
Exchange differences on cash and cash equivalents		**(135)**	(1,329)	(1,660)
Retranslation of foreign borrowings		**(12,384)**	(1,742)	(14,308)
Other non-cash changes		**(63)**	(50)	(994)
Movement in net (borrowings)/cash in the period		**(21,399)**	(31,258)	(130,044)
Net (borrowings)/cash at start of period		**(116,623)**	13,421	13,421
Net (borrowings)/cash at end of period	9	**(138,022)**	(17,837)	(116,623)

Notes to the Financial Statements
for the six months ended 31 December 2016

1 Basis of Preparation and Principal Accounting Policies

Dechra Pharmaceuticals PLC (Dechra or the Company) is a company registered and domiciled in the United Kingdom. The condensed set of financial statements as at, and for, the six months ended 31 December 2016 comprises the Company and its subsidiaries (together referred to as the Group).

This interim financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. However the external auditor, PricewaterhouseCoopers LLP has carried out a review of the condensed set of financial statements and their report in respect of the six months to 31 December 2016 is set out in the Independent Review Report. The Group financial statements as at, and for, the year ended 30 June 2016 prepared in accordance with IFRS 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 2016 and the unaudited financial information in the Half-Yearly Financial Report for the six months ended 31 December 2015. The comparative figures for the financial year ended 30 June 2016 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's external auditors, PricewaterhouseCoopers, and delivered to the Registrar of Companies. The report of the external auditor (i) was unqualified, (ii) did not include a reference to any matters to which the external 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 condensed set of financial statements for the six months ended 31 December 2016 are unaudited but have been reviewed by the external auditor.

The presentation of the Condensed Consolidated Income statement has been revised in the current Half-Yearly Financial Report to align it with the format used in the Annual Report. As a result of this, a balance of £1.0 million, relating to the unwind of the fair value uplift of inventory acquired through business combination, has been reclassified from selling, general and administrative expenses to costs of sales for both non-underlying and total items in the comparative for the six month period ended 31 December 2015.

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 the full annual financial statements, and should be read in conjunction with the Group financial statements for the year ended 30 June 2016.

This condensed set of financial statements was approved by the Board of Directors on 27 February 2017.

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 2016 as described in pages 112 to 120 of the Annual Report, except where new or revised accounting standards have been applied.

The accounting policies adopted are consistent with those of the previous financial year except for IFRS 10 'Consolidated financial statements' and IFRS 11, 'Joint arrangements' which are relevant but have no impact on the results for the period.

Other amendments to IFRSs effective for the financial year ending June 2017 are not expected to have a material impact on the Group.

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. In accounting for business combinations, the identifiable assets, liabilities and contingent liabilities acquired have to be measured at their fair values. In particular, some judgement is required in estimating the fair value of inventory with reference to current selling prices and costs to sell, and judgement in estimating the valuation of intangible assets and other identification intangible assets. Details concerning acquisitions and business combinations are outlined in note 10. Actual results may differ from these estimates.

New and Revised Standards

The following revision to standards and interpretations are applicable to the Group and have been adopted as they are mandatory for the year ending 30 June 2017:

- Amendments to IAS 19 '*Defined Benefit Plans: Employee Contributions*'

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

1 Basis of Preparation and Principal Accounting Policies continued

Going Concern

The Group meets its day-to-day working capital requirements through its banking facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank finance for the foreseeable future. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities, After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements.

Having reassessed the principle risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing its condensed interim financial statements.

2 Operating Segments

The Group has three 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.

The European Pharmaceuticals Segment comprises Dechra Veterinary Products EU, Apex Laboratories Pty Limited (Apex), Genera and Dechra Pharmaceuticals Manufacturing. This Segment operates internationally and manufactures and markets Companion Animal, Equine and Food producing Animal Products. This Segment also includes third party manufacturing sales and other non-core businesses. This Segment expanded during the period with the acquisition of the trade and assets of Apex.

The North America (NA) Pharmaceuticals Segment consists of Dechra Veterinary Products US, Putney, Dechra Veterinary Products Canada and Dechra-Brovel, which sells Companion Animal and Equine Products into those territories. The Segment also includes our manufacturing unit based in Melbourne, Florida.

The Pharmaceuticals Research and Development Segment includes all of the Group's pharmaceutical research and development activities. This Segment has no revenue.

		Six months ended		Year ended
		31.12.16 £000	31.12.15 £000	30.06.16 £000
Revenue by segment				
European Pharmaceuticals	— total	**110,691**	86,483	188,859
	— intersegment	**–**	(228)	–
NA Pharmaceuticals	— total	**61,873**	24,481	58,732
	— intersegment	**–**	–	(29)
		172,564	110,736	247,562
Operating profit/(loss) by segment				
European Pharmaceuticals		**30,802**	24,680	51,653
NA Pharmaceuticals		**18,103**	8,696	17,500
Pharmaceuticals Research and Development		**(6,631)**	(4,012)	(10,355)
Segment operating profit		**42,274**	29,364	58,798
Corporate and other unallocated costs		**(3,649)**	(3,099)	(5,941)
Underlying operating profit		**38,625**	26,265	52,857
Amortisation of acquired intangibles		**(14,944)**	(8,895)	(20,149)
Impairment of acquired intangibles and associated deferred consideration		**–**	–	(1,675)
Fair value uplift of inventory acquired through business combinations		**(4,004)**	(1,039)	(6,070)
Rationalisation costs of acquired entities		**(110)**	(90)	(1,581)
Expenses relating to acquisition activities		**(1,942)**	(341)	(3,889)
Total operating profit		**17,625**	15,900	19,493
Finance income		**985**	8	21
Finance expense		**(2,282)**	(1,673)	(4,966)
Profit before taxation		**16,328**	14,235	14,548
Revenue by product category				
CAP		**104,916**	62,579	137,686
Equine		**13,734**	9,485	20,518
FAP		**22,458**	15,407	38,101
Diets		**13,851**	11,596	24,383
Other		**17,605**	11,669	26,874
		172,564	110,736	247,562

Notes to the Financial Statements continued
for the six months ended 31 December 2016

3 Finance Income

	Six months ended		Year ended
	31.12.16	31.12.15	30.06.16
	£000	£000	£000
Finance income arising from:			
— Cash and cash equivalents	**146**	8	21
— Foreign exchange gains	**839**	–	–
	985	8	21

4 Finance Expense

	Six months ended		Year ended
	31.12.16	31.12.15	30.06.16
Underlying	**£000**	£000	£000
Finance expense arising from:			
— Financial liabilities at amortised cost	**2,082**	674	2,372
— Net interest on net defined benefit obligations	**20**	9	17
— Foreign exchange losses	**–**	679	811
Underlying finance expense	**2,102**	1,362	3,200

	Six months ended		Year ended
	31.12.16	31.12.15	30.06.16
Non-underlying	**£000**	£000	£000
Loss on extinguishment of debt	**–**	–	844
Fair value and other movements on deferred and contingent consideration	**180**	311	922
Non-underlying finance expense	**180**	311	1,766
Total finance expense	**2,282**	1,673	4,966

5 Income Tax Expense

The tax charge for the six months ended 31 December 2016 has been based on the estimated effective rate for the year ending 30 June 2017 of 21.9% (six months ended 31 December 2015: 21.7%, year ended 30 June 2016: 14.0%), the underlying effective tax rate is 22.2% (six months ended 31 December 2015: 22.3%). This includes non-underlying items as defined in the Condensed Consolidated Income Statement relating to the amortisation of intangible assets.

6 Dividends

The final dividend for the year ended 30 June 2016 of 12.91 pence per share costing £11,979,000 has been paid in the period.

The Directors have declared an interim dividend of 6.11 pence per share (2015: 5.55 pence) costing £5,681,000 (2015: £4,889,000). It is payable on 7 April 2017 to shareholders whose names are on the Register of Members at close of business on 10 March 2017. The ordinary shares will become ex-dividend on 9 March 2017.

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 2017.

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
	31.12.16	31.12.15	30.06.16
	Pence	Pence	Pence
Basic earnings per share			
— Underlying*	**31.43**	22.18	42.95
— Underlying and non-underlying	**13.73**	12.85	14.17
Diluted earnings per share			
— Underlying*	**31.25**	21.99	42.65
— Underlying and non-underlying	**13.65**	12.74	14.07

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

	£000	£000	£000
Earnings attributable to owners of the parent for underlying basic and underlying diluted earnings per share	**29,172**	19,520	38,376
Earnings attributable to owners of the parent for basic and diluted earnings per share	**12,741**	11,307	12,668

	No.	No.	No.
Weighted average number of ordinary shares for basic earnings per share	**92,818,591**	88,004,285	89,380,414
Impact of share options	**523,357**	777,105	628,307
Weighted average number of ordinary shares for diluted earnings per share	**93,341,948**	88,781,390	90,008,721

* 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
	31.12.16	31.12.15	30.06.16
	£000	£000	£000
Operating profit			
Underlying operating profit is calculated as follows:			
Operating profit	**17,625**	15,900	19,493
Amortisation of intangible assets acquired as a result of business combinations	**14,944**	8,895	20,149
Fair value uplift of inventory acquired through business combinations	**4,004**	1,039	6,070
Impairment of acquired intangibles and associated deferred consideration	**–**	–	1,675
Rationalisation costs of acquired entities	**110**	90	1,581
Expenses relating to acquisition activities	**1,942**	341	3,889
	38,625	26,265	52,857
Profit before taxation			
Underlying profit before taxation is calculated as follows:			
Profit before taxation	**16,328**	14,235	14,548
Amortisation of intangible assets acquired as a result of business combinations	**14,944**	8,895	20,149
Fair value uplift of inventory acquired through business combinations	**4,004**	1,039	6,070
Rationalisation costs of acquired entities	**110**	90	1,581
Expenses relating to acquisition expenses	**1,942**	341	3,889
Impairment of acquired intangibles and associated deferred consideration	**–**	–	1,675
Fair value and other movements on deferred and contingent consideration	**180**	311	922
Loss on extinguishment of debt	**–**	–	844
	37,508	24,911	49,678
Impact of non-underlying items on income tax	**4,746**	2,456	9,252

The Group presents a number of non-GAAP Alternative Performance Measures (APM's). This is to allow investors to understand the underlying performance of the Group, excluding items associated with areas such as the amortisation of acquired intangibles and impairment (if any) of acquired intangibles, acquisition expenses, fair value of uplift of inventory acquired through business combinations, rationalisation costs, loss on extinguishment of debt, and fair value and other movements on deferred and contingent consideration.

Notes to the Financial Statements continued

for the six months ended 31 December 2016

8 Underlying Operating Profit and Profit before Taxation continued

The following treatment is adopted in determining underlying operating profit:

- Expenses relating to acquisition activities include legal and professional fees incurred during acquisitions, these are detailed within note 10.
- The fair value uplift of inventory acquired through the business combinations is recognised in accordance with IFRS 3 'Business Combinations' to record the inventory acquired at fair value and its subsequent release into the income statement.
- Amortisation of acquired intangibles reflects the amortisation of the fair values of future cash flows recognised on acquisition in relation to the identifiable intangible assets acquired.
- Rationalisation costs relate to the integration and restructuring programmes implemented since the acquisition of Genera and Putney.
- Impairment of acquired intangibles and associated deferred consideration includes the impairment of US generic pharmaceutical product following the acquisition of Putney, as Putney have already developed a similar product. It also includes the impairment of an acquired intangible due to the cessation of sales following a competitor registration in the US.

9 Analysis of Net (Borrowings)/Cash

During the period net loans of £19.1 million were drawn under the Group's revolving credit facility (RCF), this was extended to £205.0 million. The amount of headroom under the Group's facilities at 31 December 2016 totalled £22.0 million.

	As at 31.12.16 £000	As at 31.12.15 £000	As at 30.06.16 £000
Analysis of net debt			
Cash and cash equivalents	**49,179**	45,132	39,142
Bank loans and overdraft after one year	**(187,181)**	(62,945)	(155,741)
Finance leases and hire purchases	**(20)**	(24)	(24)
	(138,022)	(17,837)	(116,623)

10 Acquisitions

Acquisition of Apex

On 14 October 2016, Dechra acquired certain trade and assets of Apex Laboratories Pty Limited, a veterinary pharmaceuticals company based in New South Wales, Australia. The Group paid £34.2 million (AUS$ 55.0 million) consideration in cash on a debt free, cash free basis.

	Provisional fair value £000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Identifiable assets	
Property, plant and equipment	**6,623**
Inventories	**2,194**
Trade and other receivables	**1,575**
Trade and other payables	**(462)**
Net deferred tax liabilities	**(6,683)**
Non-current liabilities	**(171)**
Indentifiable intangible assets	**21,323**
Net identifiable assets	**24,399**
Goodwill	**9,832**
Total consideration	**34,231**
Satisfied by:	
Cash	**34,231**
Total consideration transferred	**34,231**
Net cash outflow arising on acquisition	
Cash consideration	**34,231**
	34,231

10 **Acquisitions** continued

Acquisition of Apex continued

The fair values shown above are provisional and may be amended if information not currently available comes to light. The provisional fair value adjustments principally relate to harmonisation with Group IFRS accounting policies, including the application of fair values on acquisition, principally being the recognition of fair value uplift on acquired inventory and intangibles in accordance with IFRS 3.

The goodwill of £9.8 million arising from the acquisition consists of technical expertise of the assembled workforce, access to the Australasian and Asia Pacific regions to continue geographical expansion, and future sales expected to be achieved through the registration of Dechra products in these countries. None of the goodwill is expected to be deductible for income tax purposes.

Acquisition related costs (included in operating expenses) amounted to £1.6 million. Apex's results are reported within the EU Pharmaceuticals Segment. Apex contributed £2.1 million revenue and £0.6 million to the Group's pre-tax profit for the period between the date of acquisition and the balance sheet date. If the acquisition of Apex had been completed on the first date of the financial year, the contribution to Group revenues for the period would have been £4.9 million and the Group pre-tax profit would have been £1.6 million.

Acquisition of Brovel

Following the acquisition of Laboratorios Brovel S.A. de C.V. (Brovel) in January 2016 and the disclosure of the provisional fair values in the Annual Report for the year ended 30 June 2016, the Directors have reviewed the fair value of the assets and liabilities acquired. This review resulted in the recognition of local deferred tax assets of £0.3 million following a detailed assessment of the recoverability of these assets, and a true-up of the final working capital position for inclusion in the consideration of £0.1 million.

The revised fair values of the acquired assets and liabilities on the acquisition of Brovel are detailed below:

	Fair value £000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Identifiable assets	
Property, plant and equipment	**243**
Inventories	**1,152**
Trade and other receivables	**346**
Cash and cash equivalents	**202**
Trade and other payables	**(465)**
Net deferred tax liability	**120**
Net identifiable assets	**1,598**
Goodwill	**2,466**
Total consideration	**4,064**
Satisfied by:	
Cash	**3,473**
Contingent consideration arrangement	**591**
Total consideration transferred	**4,064**
Net cash outflow arising on acquisition	
Cash consideration	**3,473**
Less cash and cash equivalents acquired	**(202)**
	3,271

Acquisition of Genera

Following the acquisition of Genera in October 2015, the disclosure of the final fair values of the assets and liabilities acquired have been included in the financial statements for the year ended 30 June 2016. On 8 November 2016, the Group purchased 0.12% of the voting shares for a consideration of HRK 344,000 (£0.04 million). On 5 December 2016, the Group purchased another 1.62% of the voting shares for a consideration of HRK 4,801,000 (£0.54 million). The Group now holds 95.13% of the equity share capital of Genera.

Notes to the Financial Statements continued
for the six months ended 31 December 2016

10. Acquisitions continued

Acquisition of Putney

Following the acquisition of Putney Inc. (Putney) in April 2016 and the disclosure of the provisional fair values in the Annual Report for the year ended 30 June 2016, the Directors have reviewed the fair value of the assets and liabilities acquired. This review resulted in the de-recognition of a deferred tax asset of £0.4 million relating to losses that are not expected to be utilised, and a reduction in the rebate liability of £0.2 million following a true-up of the position at acquisition. In addition to this there was also an adjustment to the fair value of identifiable intangible assets totalling £0.7 million to reflect an agreement that at the point of acquisition was not required due to the existence of other supplier relationships. The associated liability and deferred tax positions were also released following this assessment. The provisional fair value period remains open until April 2017 for final assessment of the fair value of acquired assets and liabilities.

	Provisional fair value £000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Identifiable assets	
Property, plant and equipment	**466**
Inventories	**14,037**
Trade and other receivables	**5,699**
Cash and cash equivalents	**1,541**
Trade and other payables	**(6,812)**
Net deferred tax liability	**(35,961)**
Provisions	**(546)**
Debt	**(6,299)**
Identifiable intangible assets	**112,580**
Net identifiable assets	**84,705**
Goodwill	**49,487**
Total consideration	**134,192**
Satisfied by:	
Cash	**134,192**
Total consideration transferred	**134,192**
Net cash outflow arising on acquisition	
Cash consideration	**134,192**
Less cash and cash equivalents acquired	**(1,541)**
	132,651

Acquisition related costs (included in operating expenses) amounted to £0.3 million in the period.

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		Closing rate at	Closing rate at
	31.12.16	31.12.15	**31.12.16**	31.12.15
Danish Krone	**8.7054**	10.4007	**8.6830**	10.167
US Dollar	**1.2886**	1.5376	**1.2311**	1.4832
Euro	**1.1698**	1.3942	**1.1680**	1.3624

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.

Independent Review Report to Dechra Pharmaceuticals PLC

Report on the Condensed Set of Financial Statements for the six months ended 31 December 2016

Our Conclusion

We have reviewed Dechra Pharmaceuticals PLC's condensed set of financial statements for the six months ended 31 December 2016 (the Interim Financial Statements) in the Half-Yearly Financial Report of Dechra Pharmaceuticals PLC for the six month period ended 31 December 2016. Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, '*Interim Financial Reporting*', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What We Have Reviewed

The Interim Financial Statements comprise:

- the Condensed Consolidated Statement of Financial Position as at 31 December 2016;
- the Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income for the period then ended;
- the Condensed Consolidated Statement of Cash Flows for the period then ended;
- the Condensed Consolidated Statement of Changes in Shareholders' Equity for the period then ended; and
- the explanatory notes to the Interim Financial Statements.

Responsibilities for the Interim Financial Statements and the Review

Our Responsibilities and those of the Directors

The Half-Yearly Financial Report, including the Interim Financial Statements, 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 Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the Interim Financial Statements in the Half-Yearly Financial Report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

What a Review of Interim Financial Statements Involves

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 United Kingdom. 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.

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 Interim Financial Statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham
27 February 2017

Notes:

1. The maintenance and integrity of Dechra Pharmaceuticals PLC website is the responsibility of the Directors; the work carried out by the Auditor does not involve consideration of these matters and, accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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