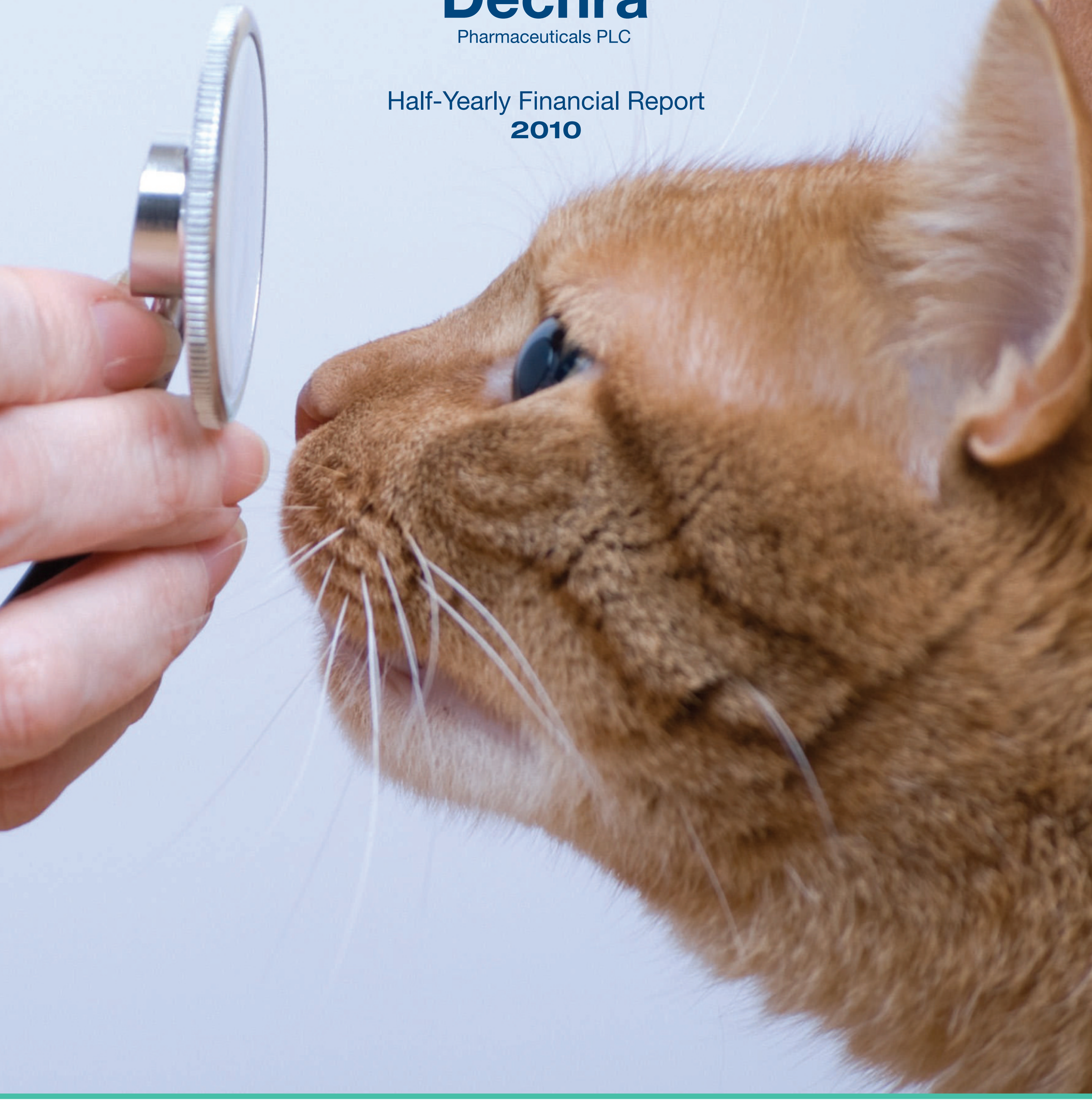
Dechra

Pharmaceuticals PLC

Half-Yearly Financial Report 2010



An International Veterinary Pharmaceutical Business

Welcome to **Dechra**

Our Business

Dechra is an international pharmaceutical business focused on the veterinary market with its key area of specialisation being the development and marketing of companion animal products

Our Strategy

- To sustain growth from our core businesses
- To deliver medium to long-term growth through the development, both organically and by way of acquisition, of our branded veterinary pharmaceutical portfolio of both novel and generic products
- To formulate and develop specialist pet diets
- To license and market key products into international markets

Forward-Looking Statements

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

Financial Highlights

Revenue
£ million — **+6.7%**

09	184.77
08	173.21
07	141.07
06	125.91
05	116.09

Adjusted Profit Before Taxation*
£ million — **+30.4%**

09	13.71
08	10.52
07	7.50
06	5.91
05	5.18

Profit Before Taxation
£ million — **+34.3%**

09	9.74
08	7.25
07	7.40
06	5.91
05	5.18

Adjusted Earnings per Share*
pence — **+31.6%**

09	15.37
08	11.68
07	9.97
06	7.84
05	6.99

Earnings per Share
pence — **+36.8%**

09	10.85
08	7.93
07	9.83
06	7.84
05	6.99

Interim Dividend per Share
pence — **+10.0%**

09	3.30
08	3.00
07	2.75
06	2.50
05	1.91

* Before payment to acquire technology for research and development programme and amortisation of acquired intangibles

Key Achievements

- Solid increase in revenue and profitability
- Product development pipeline progressing to schedule
- Strong performance from specialist pet diets
- Substantial reduction in net borrowings relative to 31 December 2008
- 10% increase in interim dividend
- Outlook remains positive

Group at a Glance

European Pharmaceuticals

Dechra Veterinary Products EU ("DVP EU")

Marketing of licensed branded pharmaceuticals and specialist pet foods to the veterinary profession in Europe and other important territories

Dechra Veterinary Products

Dales® Pharmaceuticals ("Dales")

Licensed manufacturer of veterinary and human pharmaceuticals for DVP EU and third party customers

Dales Pharmaceuticals

European Pharmaceuticals Revenue

up **7.7%**

to £41.3 million (2008: 38.4 million)

DVP EU operates out of ten countries: Norway, Denmark, Finland, Sweden, the Netherlands, Spain, Portugal, France, Ireland and the UK. Our products are also marketed by partners into other important territories

US Pharmaceuticals

Dechra Veterinary Products US ("DVP US")

DVP US markets and sells a range of endocrine, ophthalmic, dermatological and equine products into North America including our own developed products *Vetoryl®* and *Felimazole®*

US Pharmaceuticals Revenue

up **72.5%**

to £5.4 million (2008: £3.1 million)

Research and Development

£2.5 million

invested in product development

Progress continues to be made in the development of five novel products outlined in the 2009 Annual Report and Accounts:

- The completed dossier for *Equidone®* Gel has been submitted to the FDA for approval
- The efficacy protocol has been agreed with the FDA for a further equine product and trials initiated
- The three remaining opportunities are progressing to schedule

Services

National Veterinary Services ("NVS®")

UK market leader in the supply of pharmaceuticals and added value services to the veterinary profession

National Veterinary Services

NationWide Laboratories ("NWL")

Multi-disciplined independent commercial veterinary laboratory

NationWide Laboratories

Services Revenue

up 4.7%

to £144.3 million (2008: £137.8 million)

Cambridge Specialist Laboratory Services ("CSLS")

Primary and secondary referral specialist veterinary immunoassay laboratory

Cambridge Specialist Laboratory Services

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for the six months ended 31 December 2009

Introduction

Dechra's strategy is to build an own brand international veterinary products business whilst retaining pre-eminence in the UK veterinary wholesale sector, self-funding the development of the pharmaceutical and specialist pet diet portfolios and simultaneously growing profits and dividends. In the first half of the financial year, Dechra has continued to progress in each of these elements of its strategy.

Financials

In the six months ended 31 December 2009, Group revenue increased by 6.7% to £184.8 million (2008: £173.2 million). Adjusted operating profit increased by 1.4% to £12.8 million (2008: £12.6 million) whilst adjusted profit before taxation rose 30.4% to £13.7 million (2008: £10.5 million). Operating profit was £8.8 million (2008: £9.4 million). Profit before taxation was £9.7 million (2008: £7.3 million).

Adjusted basic earnings per share increased from 11.68 pence to 15.37 pence, up by 31.6%. Earnings per share was 10.85 pence (2008: 7.93 pence).

Fluctuations in foreign currency rates had a negative impact of £0.8 million on operating profit but a positive impact of £2.2 million on finance income.

Research and development expenditure charged to the income statement was £2.1 million, a 57.0% increase over the corresponding period last year. In addition, a payment of £0.4 million was made to acquire technology for our product development programme. This was in line with management expectations following commencement of an increased product development programme, outlined later in this report.

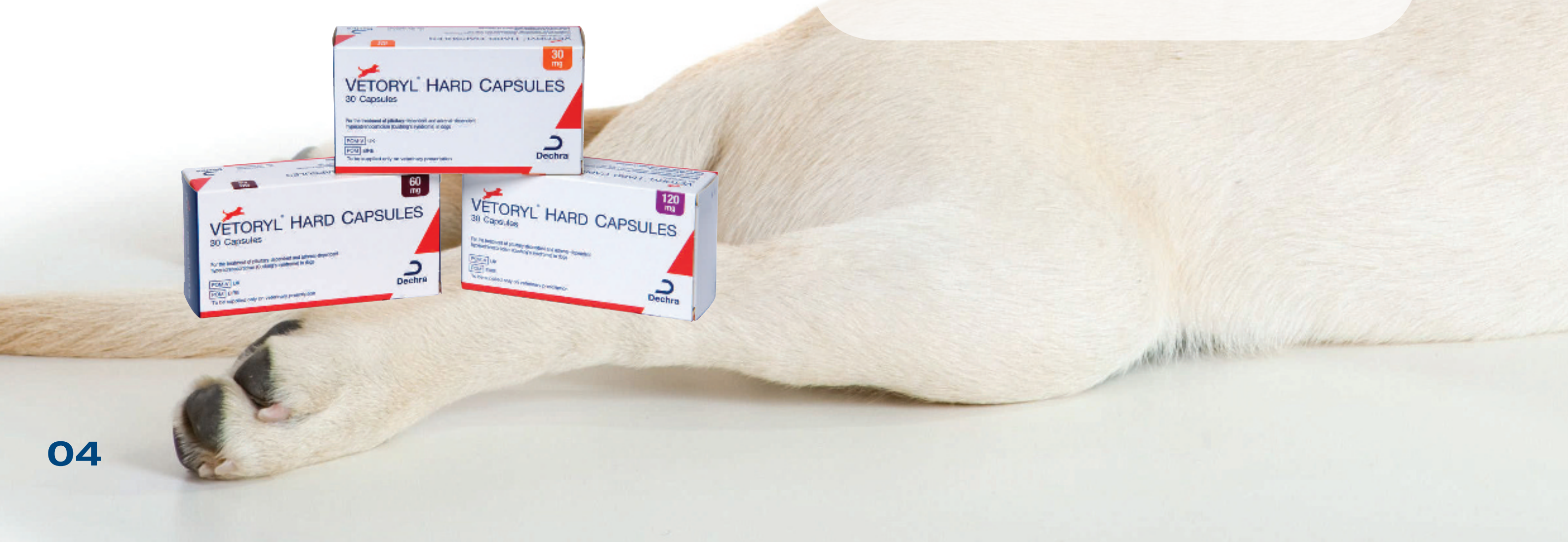
The effective tax rate of 26.8% is lower than the standard rate of 28% due to the utilisation of losses and research and development tax credits.

Cash flow from operating activities before interest and taxation was £7.4 million, 23.6% higher than the £6.0 million achieved in 2008. Cash flow in the first half of the financial year has been impacted, as in previous years, by the seasonal increase in working capital.

Interest cover on adjusted operating profit was 10.1 times (2008: 9.6 times) excluding gains and losses on foreign exchange movements and derivative contracts.

Total available bank facilities are currently £50 million of which £10 million is renewable within the next 12 months.

Net borrowings at 31 December 2009 were £18.5 million compared with £15.5 million at 30 June 2009 and £31.9 million at 31 December 2008.



Dividend

The Board is pleased to declare an interim dividend of 3.3 pence per share (2008: 3.0 pence), an increase of 10%. The interim dividend is covered 4.6 times by adjusted profit after taxation (2008: 3.9 times).

The dividend is payable on 1 April 2010 to shareholders on the Register of Members at close of business on 5 March 2010. The date the ordinary shares will become ex dividend is on 3 March 2010.

Review

Product Development

Progress continues to be made on the development of the five novel products outlined in the 2009 Annual Report and Accounts. The completed dossier for *Equidone* Gel, a specialist equine product for the US market, has been submitted to the FDA for approval. The efficacy protocol has been agreed with the FDA for a further equine product and the trial has been initiated. Additional personnel have been employed to control and monitor efficacy trials. The three remaining opportunities are progressing to schedule. Additional novel product prospects have been identified and exploratory work is currently being undertaken to confirm their viability.

Malaseb®, our dermatological product which is currently marketed in the UK, Scandinavia, Holland and Ireland, has now received marketing approval for the rest of Europe including the key territories of France, Spain and Germany. The product will be launched in these territories in the final quarter of this financial year.

A new generic antibiotic has received approval in the UK; the dossier has now been submitted for approval in the EU through the Mutual Recognition procedure.

Following last year's successful launch of two new best in class specialist pet diets, a third new diet, CID for digestive support, was launched in December 2009. Other new dietary products are at an advanced stage of development and several products have been reformulated to improve quality and palatability.

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for the six months ended 31 December 2009

European Pharmaceuticals

Dechra Veterinary Products EU ("DVP EU")

The majority of our key pharmaceutical products continue to show growth across Europe. *Felimazole* in the UK has consolidated its market share at approximately 54% following an innovative marketing campaign. Following the termination of our major European marketing contract in December 2009 for *Felimazole*, we have now commenced our own in-house marketing campaign for the 5mg strength and launched a 2.5mg presentation in Holland, France and Spain. We have also reached an agreement for an early termination with our marketing partner in Scandinavia which will allow for both *Vetoryl* and *Felimazole* to be marketed through our own subsidiaries from 1 January 2011. *Canaural*® has underperformed in a very competitive market, however, it remains market leader in the majority of EU countries in which we trade; sales improved in the last month of the trading period. Sales of the *Vetivex*® range of critical care products have reversed the trend from our previous financial year and are now demonstrating solid growth. Our dermatological and equine ranges have continued to perform well.

Marketing plans have been prepared to launch two new generics and also for the re-launch of an existing generic across Europe in Quarter Four of this financial year.

Sales of both our therapeutic and life stage diets have outperformed the market due to an improved product range, new product launches, competitive pricing and a focused sales and marketing effort.

In January 2010 we announced internally the closure of our pharmaceutical warehouse in Shrewsbury, with all pre-wholesale logistics being transferred to and now operating out of Uldum, Denmark. This will result in improved efficiency and an enhanced service to our customers.

> *"The key focus in the US throughout the period has been on increasing awareness of Vetoryl."*

Manufacturing

Dales has increased third party contract manufacturing in the period by 2.9% compared to the same period last year. Progress has been made with the quality systems and final infrastructure improvements are currently being completed prior to applying for an FDA audit which will be requested in the current financial year. The *Dales* management team has taken responsibility for manufacturing at our facility in Uldum, Denmark and plans are at an advanced stage to implement Oracle at this site, an integrated IT platform that was successfully launched at *Dales* in 2008.

US Pharmaceuticals

Dechra Veterinary Products US ("DVP US")

We achieved a strong performance in the US with operating profit of £309,000 compared to £93,000 in the same period last year. This was despite an increase of £1.2 million in costs as we continued to increase the sales and technical support teams.

The key focus in the US throughout the period has been on increasing awareness of *Vetoryl*. We have been successful in selling the product into over 7,000 veterinary practices which represents over a quarter of the companion animal practices.

Although sales, at $2.5 million in the period (2008: $0.7 million) were at the lower end of management expectations, our long term target expectations for US *Vetoryl* have not changed. As our activities in the US have progressed, it has become evident that the majority of practices are not diagnosing Cushing's Disease until symptoms are overt. As a result, the educational programme into the diagnosis and treatment of the disease is continuing. Key opinion leaders are presenting at all major US veterinary congresses and our own technical veterinarians are presenting weekly to regional veterinary groups. Two webinars have also been conducted and further online educational and interactive support is being developed. This strategy mirrors the process by which we expanded the UK market and which we are currently exploiting across Europe.

Felimazole was launched in the US during the period; generating sales of $350,000. Unlike the EU, where veterinarians have an obligation to use licensed medicines, *Felimazole* in the US competes with human generics. However, we are successfully marketing the benefits of our product: a feline specific 2.5mg dose; a small sugar coated tablet for easier dosing; full technical support on the treatment and diagnosis of hyperthyroidism; product liability support and client user literature. We remain confident that the product will gain a significant market share in the US in the medium term.

Despite supply problems with a number of our sterile ophthalmic products, the dermatological, otic and ophthalmic range has performed better than our expectations. A new manufacturer has been identified to produce the sterile products and the transfer is targeted to be completed at the beginning of our next financial year.

Services Division

National Veterinary Services ("NVS")

Effective cost control and increased revenue of 4.8% at our distribution business, *NVS*, ensured that operating margin has continued to be maintained at the same level as for the year ended 30 June 2009. A new Operations Director, appointed at the beginning of the period, has made an impact and has identified further opportunities to improve operational efficiency. The senior management team has been focusing on the implementation of an integrated ERP system which is targeted to "go live" prior to the end of the current calendar year. Despite this pressure on management resource we have and will continue to maintain a high level of service to our customers. Our commitment to service has been further demonstrated throughout the recent adverse weather conditions with the majority of deliveries completed to schedule.

"Effective cost control and increased revenue of 4.8% at our distribution business, NVS, *ensured that operating margin has continued to be maintained at the same level as for the year ended 30 June 2009."*

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for the six months ended 31 December 2009

Principal Risks and Uncertainties

As we have stated in previous reports, 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 long term strategic objectives.

The Board has ultimate responsibility for risk management within the Group and there is an ongoing and embedded process of assessing, monitoring, managing and reporting on significant risks faced by the separate business units and by the Group as a whole.

The main potential risk areas identified by the Board which could impact the next six months are as follows:

Risks	Controls
The failure of a major customer or supplier.	The business units monitor the financial status of both key customers and suppliers and maintain regular contact with both.
Competitor product launched against one of our leading brands.	Product improvement plans and marketing strategies are reviewed regularly.
Failure to meet regulatory requirements under which we operate thereby disrupting our operations and our product manufacture pipeline.	The Group always strives to exceed regulatory requirements and ensures that its employees have detailed experience and knowledge of the regulations. All businesses have clearly established quality systems and procedures in place.
Revenue from recently launched new products failing to meet expectations.	The Group ensures that it has detailed market knowledge and retains close contact with customers through its sales teams which are consistently trained to a high standard.
Disruption caused by the transfer of pre-wholesale logistics from Shrewsbury to Uldum, Denmark.	A project team containing appropriate skills and experience has been established. A detailed plan has been prepared, progress against which is monitored on a daily basis.
Loss of key products due to regulatory changes.	Regular contact is maintained with all relevant veterinary authorities and continual monitoring of legislation is maintained.

Outlook

Footfall in veterinary practices throughout January 2010 was significantly reduced due to the adverse weather conditions which has had a temporary knock-on effect on Dechra's trading within the UK. However, this is not expected to have a material effect on management expectations for the second half. Despite the continued economic uncertainty, there were indications of volume growth starting to return to the market towards the end of the reporting period. With the continued growth of diets within Europe, the ongoing introduction of new products, our increasing penetration of international markets and a robust product development pipeline, we remain optimistic for the Group's future prospects.

Michael Redmond
Non-Executive Chairman
23 February 2010

Ian Page
Chief Executive

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

We confirm that to the best of our knowledge:

- the condensed consolidated set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;

- the interim management 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 consolidated 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
23 February 2010

Simon Evans
Group Finance Director

Condensed Consolidated Income Statement

for the six months ended 31 December 2009

	Note	Six months ended 31.12.09 £'000	Six months ended 31.12.08 £'000	Year ended 30.06.09 £'000
Revenue	2	**184,774**	173,208	349,964
Cost of sales		**(145,497)**	(137,498)	(276,292)
Gross profit		**39,277**	35,710	73,672
Operating expenses		**(30,447)**	(26,345)	(56,004)
Operating profit	2	**8,830**	9,365	17,668
Adjusted operating profit	8	**12,805**	12,633	24,971
Amortisation of acquired intangibles		**(3,557)**	(3,268)	(6,833)
Payment to acquire technology for research and development programme		**(418)**	—	(470)
Operating profit		**8,830**	9,365	17,668
Finance income	3	**2,765**	2,255	3,211
Finance expense	4	**(1,857)**	(4,370)	(4,776)
Profit before taxation		**9,738**	7,250	16,103
Adjusted profit before taxation	8	**13,713**	10,518	23,406
Amortisation of acquired intangibles		**(3,557)**	(3,268)	(6,833)
Payment to acquire technology for research and development programme		**(418)**	—	(470)
Profit before taxation		**9,738**	7,250	16,103
Income tax expense	5	**(2,606)**	(2,066)	(4,800)
Profit for the period attributable to equity holders of the parent		**7,132**	5,184	11,303
Earnings per share (pence)				
Basic	7	**10.85p**	7.93p	17.27p
Diluted	7	**10.81p**	7.90p	17.13p
Dividend per share (declared/paid and proposed)	6	**3.30p**	3.00p	9.10p

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 31 December 2009

	Six months ended		Year ended
	31.12.09	31.12.08	30.06.09
	£'000	£'000	£'000
Profit for the period	**7,132**	5,184	11,303
Other comprehensive income:			
Fair value gains/(losses) on derivative financial instruments	**137**	(950)	(1,024)
Exchange differences on translation of foreign operations	**2,249**	16,882	4,866
Net loss on hedge of net investment in foreign operations	**(1,300)**	(4,732)	(1,532)
Recycled to intangible assets	**—**	—	40
Recycled to income statement	**(192)**	—	(256)
Total comprehensive income for the period attributable to equity holders of the parent	**8,026**	16,384	13,397

Condensed Consolidated Statement of Financial Position

at 31 December 2009

	As at 31.12.09 £'000	As at 31.12.08 £'000	As at 30.06.09 £'000
ASSETS			
Non-current assets			
Intangible assets	**90,574**	104,186	89,565
Property, plant & equipment	**8,108**	8,646	8,040
Deferred tax assets	**—**	346	—
Total non-current assets	**98,682**	113,178	97,605
Current assets			
Inventories	**37,044**	32,558	31,534
Trade and other receivables	**44,428**	45,510	47,717
Cash and cash equivalents	**25,000**	20,416	26,817
Total current assets	**106,472**	98,484	106,068
Total assets	**205,154**	211,662	203,673
LIABILITIES			
Current liabilities			
Borrowings	**(23,033)**	(26,670)	(19,263)
Trade and other payables	**(56,771)**	(53,069)	(61,703)
Current tax liabilities	**(5,239)**	(3,883)	(4,756)
Total current liabilities	**(85,043)**	(83,622)	(85,722)
Non-current liabilities			
Borrowings	**(20,426)**	(25,640)	(23,081)
Deferred tax liabilities	**(13,890)**	(17,670)	(14,184)
Total non-current liabilities	**(34,316)**	(43,310)	(37,265)
Total liabilities	**(119,359)**	(126,932)	(122,987)
Net assets	**85,795**	84,730	80,686
EQUITY			
Issued share capital	**660**	655	656
Share premium account	**62,813**	62,249	62,437
Hedging reserve	**(566)**	(669)	(703)
Foreign currency translation reserve	**5,443**	13,758	4,686
Merger reserve	**1,770**	1,770	1,770
Retained earnings	**15,675**	6,967	11,840
Total equity attributable to equity holders of the parent	**85,795**	84,730	80,686

Condensed Consolidated Statement of Changes in Shareholders' Equity

for the six months ended 31 December 2009

	Attributable to equity holders of the parent						
	Issued share capital £'000	Share premium account £'000	Hedging reserve £'000	Foreign currency translation reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Six months ended 31 December 2008							
At 1 July 2008	652	62,166	281	1,608	1,770	5,322	71,799
Profit for the period	—	—	—	—	—	5,184	5,184
Fair value losses on derivative financial instruments	—	—	(950)	—	—	—	(950)
Exchange differences on translation of foreign operations	—	—	—	12,150	—	—	12,150
Total comprehensive income for the period	—	—	(950)	12,150	—	5,184	16,384
Transactions with owners							
Dividends paid	—	—	—	—	—	(3,600)	(3,600)
Share-based payments	—	—	—	—	—	61	61
Shares issued	3	83	—	—	—	—	86
At 31 December 2008	655	62,249	(669)	13,758	1,770	6,967	84,730
Year ended 30 June 2009							
At 1 July 2008	652	62,166	281	1,608	1,770	5,322	71,799
Profit for the period	—	—	—	—	—	11,303	11,303
Fair value losses on derivative financial instruments	—	—	(1,024)	—	—	—	(1,024)
Exchange differences on translation of foreign operations	—	—	—	4,866	—	—	4,866
Net loss on hedge of net investment in foreign operations	—	—	—	(1,532)	—	—	(1,532)
Recycled to intangible assets	—	—	40	—	—	—	40
Recycled to income statement	—	—	—	(256)	—	—	(256)
Total comprehensive income for the period	—	—	(984)	3,078	—	11,303	13,397
Transactions with owners							
Dividends paid	—	—	—	—	—	(5,565)	(5,565)
Share-based payments	—	—	—	—	—	780	780
Shares issued	4	271	—	—	—	—	275
At 30 June 2009	656	62,437	(703)	4,686	1,770	11,840	80,686
Six months ended 31 December 2009							
At 1 July 2009	656	62,437	(703)	4,686	1,770	11,840	80,686
Profit for the period	—	—	—	—	—	7,132	7,132
Fair value gain on derivative financial instruments	—	—	137	—	—	—	137
Net loss on hedge of net investment in foreign operations	—	—	—	(1,300)	—	—	(1,300)
Exchange differences on translation of foreign operations	—	—	—	2,249	—	—	2,249
Recycled to income statement	—	—	—	(192)	—	—	(192)
Total comprehensive income for the period	—	—	137	757	—	7,132	8,026
Transactions with owners							
Dividends paid	—	—	—	—	—	(4,016)	(4,016)
Share-based payments	—	—	—	—	—	719	719
Shares issued	4	376	—	—	—	—	380
At 31 December 2009	660	62,813	(566)	5,443	1,770	15,675	85,795

Condensed Consolidated Statement of Cash Flows

for the six months ended 31 December 2009

	Note	Six months ended 31.12.09 £'000	Six months ended 31.12.08 £'000	Year ended 30.06.09 £'000
Cash flows from operating activities				
Profit for the period		**7,132**	5,184	11,303
Adjustments for:				
Depreciation		**764**	720	1,477
Amortisation		**4,029**	3,437	7,427
Loss/(gain) on sale of property, plant and equipment		**9**	(18)	(33)
Finance income		**(2,765)**	(2,255)	(3,211)
Finance expense		**1,857**	4,370	4,776
Equity-settled share-based payment expenses		**372**	275	643
Income tax expense		**2,606**	2,066	4,800
		14,004	13,779	27,182
(Increase)/decrease in inventories		**(5,186)**	1,011	1,340
Decrease/(increase) in trade and other receivables		**3,605**	3,899	(593)
Decrease in trade and other payables		**(5,026)**	(12,705)	(372)
Cash flow from operating activities before interest and taxation		**7,397**	5,984	27,557
Interest paid		**(1,673)**	(1,939)	(3,996)
Income taxes paid		**(3,104)**	(944)	(3,227)
Net cash from operating activities		**2,620**	3,101	20,334
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		**—**	18	42
Interest received		**356**	1,782	2,145
Purchase of property, plant and equipment		**(675)**	(531)	(881)
Capitalised development expenditure		**(390)**	(474)	(785)
Purchase of other intangible non-current assets		**(397)**	(474)	(2,010)
Net cash from investing activities		**(1,106)**	321	(1,489)
Cash flows from financing activities				
Proceeds from the issue of share capital		**380**	99	288
Repayment of borrowings		**(273)**	(888)	(5,658)
Movement of foreign currency borrowings		**456**	—	(3,473)
Dividends paid		**(4,016)**	(3,600)	(5,565)
Net cash from financing activities		**(3,453)**	(4,389)	(14,408)
Net (decrease)/increase in cash and cash equivalents		**(1,939)**	(967)	4,437
Cash and cash equivalents at start of period		**26,817**	22,219	22,219
Exchange differences on cash and cash equivalents		**122**	(836)	161
Cash and cash equivalents at end of period		**25,000**	20,416	26,817
Reconciliation of net cash flow to movement in net borrowings				
Net (decrease)/increase in cash and cash equivalents		**(1,939)**	(967)	4,437
Repayment of borrowings		**273**	888	5,658
New finance leases		**—**	—	(248)
Exchange differences on cash and cash equivalents		**122**	(836)	161
Retranslation of foreign borrowings		**(1,252)**	(3,799)	1,821
Other non-cash changes		**(136)**	(183)	(359)
Movement in net borrowings in the period		**(2,932)**	(4,897)	11,470
Net borrowings at start of period		**(15,527)**	(26,997)	(26,997)
Net borrowings at end of period	9	**(18,459)**	(31,894)	(15,527)

Notes to the Financial Statements

for the six months ended 31 December 2009

1. Basis of Preparation and Principal Accounting Policies

Dechra Pharmaceuticals PLC (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 2009 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 2009 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 Dechra House, Jamage Industrial Estate, Talke Pits, Stoke-on-Trent, ST7 1XW.

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 2009 and the unaudited financial information in the half-yearly financial report for the six months ended 31 December 2008. The comparative figures for the financial year ended 30 June 2009 are not the Company’s statutory accounts for that financial year. Those accounts have been reported on by the Company’s Auditors and delivered to the Registrar of Companies. The report of the Auditors (i) was unqualified, (ii) did not include a reference to any matters to which the Auditors 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 2009 are unaudited but have been reviewed by the Auditors. 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 2009.

This condensed set of financial statements was approved by the Board of Directors on 23 February 2010.

Significant Accounting Policies

As required by the Disclosure and Transparency Rules of the Financial Services 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 2009, except where new or revised accounting standards have been applied.

During the year, the Group has applied IAS 1 *Presentation of Financial Statements (revised 2007)* which has introduced a number of terminology changes (including titles for the condensed financial statements) and has resulted in a number of changes in presentation and disclosure. The revised standard has had no impact on the reported results or financial position of the Group. In addition, the Group has adopted IFRS 2 *Amendment regarding Vesting Conditions and Cancellations*, IAS 23 *Borrowing Costs (revised 2007)* and Amendments to IAS 32 *Financial Instruments: Presentation*, none of which have had a significant effect on the reported results or financial position of the Group.

In addition, the Group has adopted IFRS 8 *Operating Segments*, with effect from 1 July 2009 and this has resulted in a change to the segmental information reported by the Group. Comparative information has been presented on a consistent basis.

The Group’s operating segments are being reported based on the financial information provided to the Board of Directors.

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.

The significant judgements made by management in applying the Group’s accounting policies and the key sources of uncertainty were the same as those applied to the Group financial statements as at 30 June 2009.

Notes to the Financial Statements

for the six months ended 31 December 2009

2. Segmental Analysis

The Group has four reportable segments, as discussed below, which are based on information provided to the Chief Executive Officer and the Board of Directors.

The Services segment comprises *National Veterinary Services*, NationWide Laboratories and Cambridge Specialist Laboratory Services. The segment serves UK veterinary practices in both the companion animal and livestock sectors.

The European Pharmaceuticals segment comprises Dechra Veterinary Products EU and *Dales* Pharmaceuticals. It operates internationally and is unique in having its sole area of specialisation in companion animal products.

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.

	Six months ended		Year ended
	31.12.09	31.12.08	30.06.09
	£'000	£'000	£'000
Revenue by segment			
Services — external	**144,331**	137,809	276,141
— intersegment	**(128)**	(122)	(266)
European Pharmaceuticals — external	**41,313**	38,365	77,411
— intersegment	**(6,092)**	(5,945)	(11,101)
US Pharmaceuticals	**5,350**	3,101	7,779
	184,774	173,208	349,964
Operating profit/(loss) by segment			
Services	**6,473**	5,701	12,334
European Pharmaceuticals	**9,621**	9,437	17,964
US Pharmaceuticals	**309**	93	815
Pharmaceuticals research and development	**(2,064)**	(1,315)	(3,433)
Segment operating profit	**14,339**	13,916	27,680
Corporate and other unallocated costs	**(1,534)**	(1,283)	(2,709)
Amortisation of acquired intangibles	**(3,557)**	(3,268)	(6,833)
Payment to acquire technology for research and development programme	**(418)**	—	(470)
Total operating profit	**8,830**	9,365	17,668
Finance income	**2,765**	2,255	3,211
Finance expense	**(1,857)**	(4,370)	(4,776)
Profit before taxation	**9,738**	7,250	16,103
Total assets by segment			
Services	**96,973**	82,778	93,385
European Pharmaceuticals	**129,649**	136,853	123,783
US Pharmaceuticals	**5,754**	6,089	5,296
Pharmaceuticals research and development	**1,542**	4,156	2,448
Unallocated	**(28,764)**	(18,214)	(21,239)
	205,154	211,662	203,673

3. Finance Income

	Six months ended		Year ended
	31.12.09	31.12.08	30.06.09
	£'000	£'000	£'000
Recognised in the income statement			
Finance income arising from:			
— cash and cash equivalents	**328**	1,576	1,854
— derivatives at fair value through profit or loss	**39**	473	38
— foreign exchange gains	**2,370**	—	1,028
— loans and receivables	**28**	206	291
	2,765	2,255	3,211
Recognised directly in equity			
Foreign currency translation differences for foreign operations	**2,249**	16,882	4,866
Net loss on hedge of net investment in foreign operations	**(1,300)**	(4,732)	(1,532)
Amount recycled to income statement*	**(192)**	—	(256)
Recognised in foreign currency translation reserve	**757**	12,150	3,078
— fair value gains/(losses) on interest rate floor and ceiling	**191**	(1,319)	(1,423)
— income tax (expense)/credit on above	**(54)**	369	399
Amount recycled to intangible assets	**—**	—	40
Recognised in hedging reserve	**137**	(950)	(984)
Total recognised in equity	**894**	11,200	2,094

* Gains and losses previously included in equity as a result of net investment hedging are recycled to the income statement to the extent that the hedged item is disposed of.

4. Finance Expense

	Six months ended		Year ended
	31.12.09	31.12.08	30.06.09
	£'000	£'000	£'000
Recognised in the income statement			
Finance expense arising from:			
— financial liabilities at amortised cost	**1,627**	3,101	4,776
— foreign exchange losses	**—**	1,269	—
— derivatives at fair value through profit or loss	**230**	—	—
	1,857	4,370	4,776

5. Income Tax Expense

The tax charge for the six months ended 31 December 2009 has been based on the estimated effective rate for the year ending 30 June 2010 of 26.8% (six months ended 31 December 2008: 28.5%, year ended 30 June 2009: 29.8%).

Notes to the Financial Statements

for the six months ended 31 December 2009

6. Dividends

The Directors have declared an interim dividend of 3.30p per share (2008: 3.00p) costing £2,178,000 (2008: £1,965,000). It is payable on 1 April 2010 to Shareholders whose names are on the Register of Members at close of business on 5 March 2010. The ordinary shares will become ex dividend on 3 March 2010.

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 2010.

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
	31.12.09	31.12.08	30.06.09
	Pence	Pence	Pence
Basic earnings per share			
— adjusted basic	**15.37**	11.68	25.61
— basic	**10.85**	7.93	17.27
Diluted earnings per share			
— adjusted diluted	**15.30**	11.63	25.40
— diluted	**10.81**	7.90	17.13

The calculations of basic and diluted earnings per share are based upon:	**£'000**	£'000	£'000
Earnings for adjusted basic and adjusted diluted earnings per share calculations	**10,098**	7,632	16,759
Earnings for basic and diluted earnings per share	**7,132**	5,184	11,303

	No.	No.	No.
Weighted average number of ordinary shares for basic earnings per share	**65,718,167**	65,336,853	65,431,902
Impact of share options	**271,474**	267,641	550,580
Weighted average number of ordinary shares for diluted earnings per share	**65,989,641**	65,604,494	65,982,482

8. Adjusted Operating Profit and Profit Before Taxation

	Six months ended 31.12.09 £'000	Six months ended 31.12.08 £'000	Year ended 30.06.09 £'000
Operating profit			
Adjusted operating profit is calculated as follows:			
Operating profit	**8,830**	9,365	17,668
Amortisation of intangible assets acquired as a result of business combinations	**3,557**	3,268	6,833
Payment to acquire technology for research and development programme	**418**	—	470
Adjusted operating profit	**12,805**	12,633	24,971
Profit before taxation			
Adjusted profit before taxation is calculated as follows:			
Profit before taxation	**9,738**	7,250	16,103
Amortisation of intangible assets acquired as a result of business combinations	**3,557**	3,268	6,833
Payment to acquire technology for research and development programme	**418**	—	470
Adjusted profit before taxation	**13,713**	10,518	23,406

9. Analysis of Net Borrowings

	As at 31.12.09 £'000	As at 31.12.08 £'000	As at 30.06.09 £'000
Bank loans and overdraft	**(41,886)**	(50,208)	(40,498)
Finance leases and hire purchase contracts	**(1,573)**	(2,102)	(1,846)
Cash and cash equivalents	**25,000**	20,416	26,817
	(18,459)	(31,894)	(15,527)

10. 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 **31.12.09**	Average rate for the six months ended 31.12.08	Closing rate at 31.12.09
Danish Krone	**8.3921**	9.1549	8.2711
US Dollar	**1.6372**	1.7364	1.5928
Euro	**1.13**	1.23	1.11

11. Contingency

The Danish tax authorities have opened an investigation into the tax return of Dechra Veterinary Products Holdings A/S for the period ended 31 December 2005, a period prior to the acquisition of the company. They are seeking to reduce the tax losses arising in this year by DKK17.5 million. They have also indicated that they will be investigating the tax returns for 2006, 2007 and 2008. The Directors believe that there are strong arguments to resist this claim. However, should the dispute be lost, the total exposure is estimated to be approximately £1.3 million.

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 2009 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 Services Authority ("the UK FSA"). 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 FSA.

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 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 2009 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

SJ Purkess
for and on behalf of KPMG Audit Plc
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
23 February 2010

Trademarks

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