Dechra
Pharmaceuticals PLC

Half-Yearly Financial Report 2013

The Evolution of Dechra

Our Business

Dechra is an international veterinary pharmaceutical business. Our expertise is in the development, manufacturing, distribution, sales and marketing of high quality products exclusively for veterinarians worldwide

Our Strategy

- To develop an international high growth, cash generative, specialist veterinary products business; and
- To sustain growth and innovate in our Services business

Our Highlights

- *Eurovet*® integration in line with plan and delivering expected synergies
- Solid growth across all trading segments
- Own branded products delivering strong revenue growth
- Two US product in-licensing deals completed
- Increase in interim dividend of 15.1%

Key Strengths

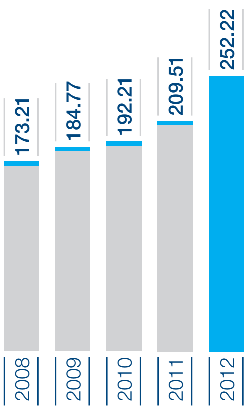
- Unique products
- People and expertise
- Strategic focus
- International footprint
- Strong financial platform
- Development pipeline
- Strong market position
- Growing markets
- Customer satisfaction
- Innovation

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

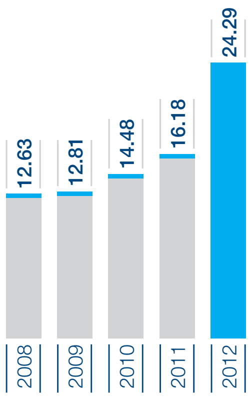
Forward-Looking Statements: This document contains certain forward-looking statements which reflect the knowledge and information available to the Company during the preparation and up to the publication of this document. By their very nature, these statements depend upon circumstances and relate to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

Financial Highlights

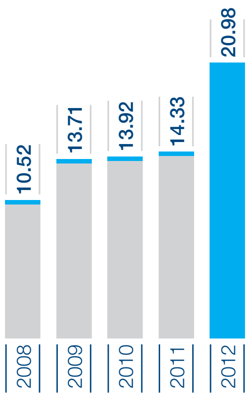
Revenue
£ million
up 20.4%



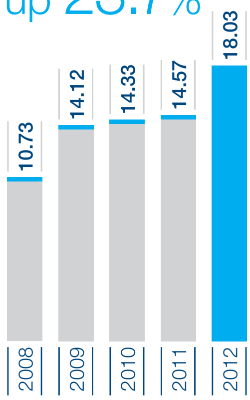
Underlying Operating Profit*
£ million
up 50.1%



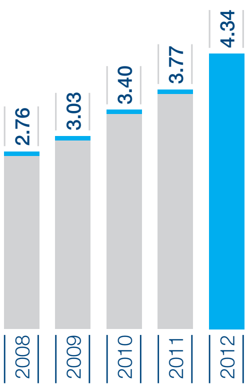
Underlying Profit Before Taxation*
£ million
up 46.9%



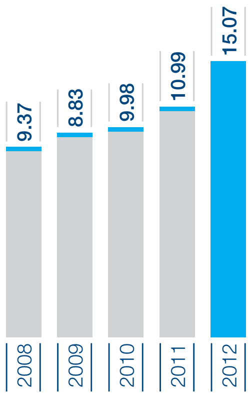
Underlying Earnings per Share*†
pence
up 23.7%



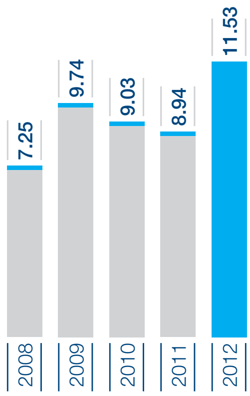
Interim Dividend per Share †
pence
up 15.1%



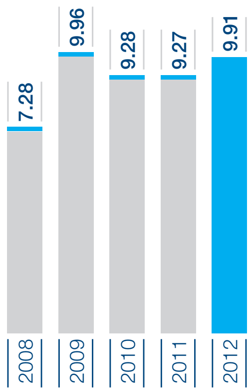
Operating Profit
£ million
up 37.3%



Profit Before Taxation
£ million
up 29.2%



Earnings per Share †
pence
up 6.9%



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

† Restated to reflect the bonus element of the Rights Issue.

Group at a Glance

Pharmaceuticals

European Pharmaceuticals

- **Dechra Veterinary Products EU ("DVP EU")**

  Sales, marketing and technical support of Dechra's branded veterinary products to the veterinary profession in Europe

- **Dechra Manufacturing**

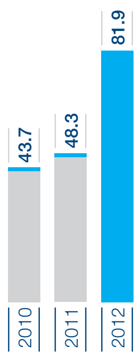
  Licensed manufacturer of veterinary and human pharmaceuticals for DVP EU and third party customers

US Pharmaceuticals

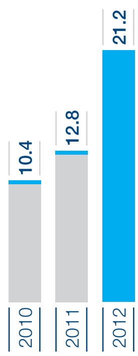
- **Dechra Veterinary Products US ("DVP US")**

  Sales, marketing and technical support of Dechra's branded endocrine, ophthalmic, dermatological and equine products to the veterinary profession in the USA

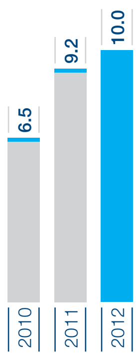
Revenue
£ million
up 69.7%



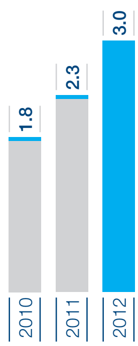
Operating Profit
£ million
up 65.7%



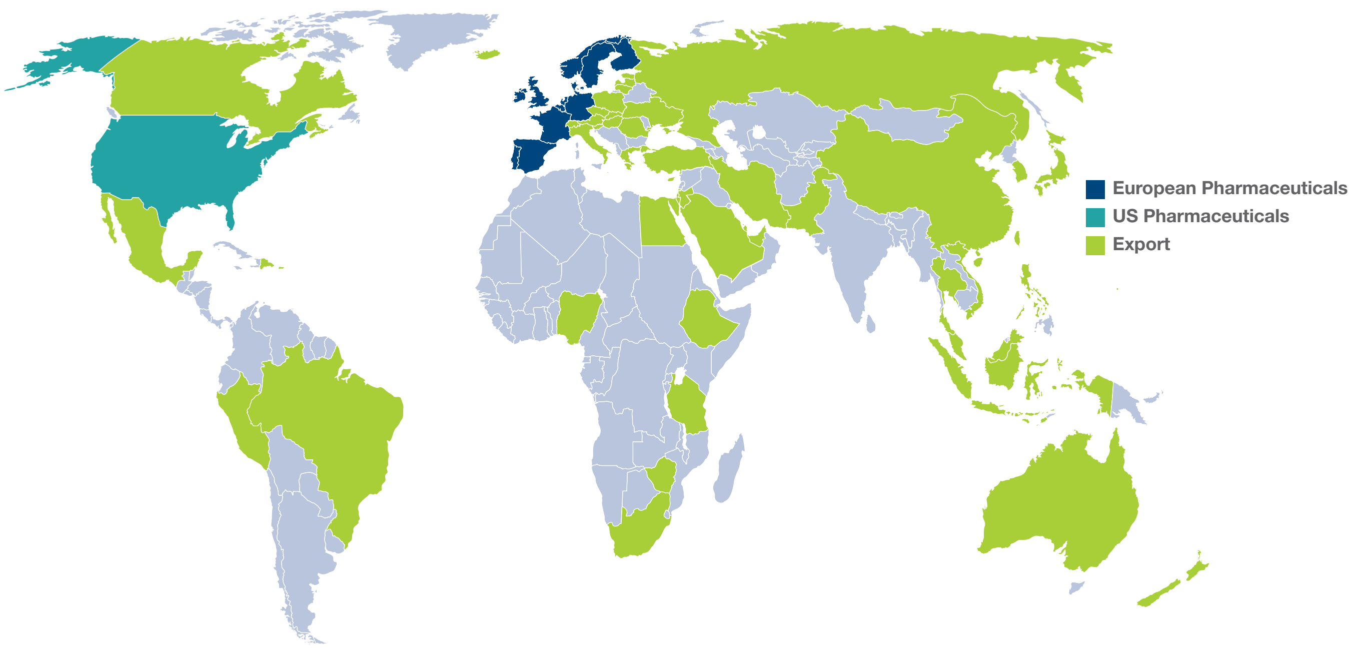
Revenue
£ million
up 8.7%



Operating Profit
£ million
up 28.7%



Where we Operate



Product Development

The Product Development and Regulatory Team develop and license Dechra's own branded veterinary product portfolio of novel and generic pharmaceuticals and specialist pet diets

Services

- **National Veterinary Services ("NVS®")**
  UK market leader in the supply of pharmaceuticals, instruments, consumables, pet products and added value services to the veterinary profession
- **Dechra Laboratory Services ("DLS")**
  Multi-disciplined independent commercial veterinary laboratory
- **Dechra Specialist Laboratories ("DSL")**
  Primary and secondary referral specialist veterinary immunoassay laboratory

Research and Development Spend

£ million

up 43.7%

Revenue

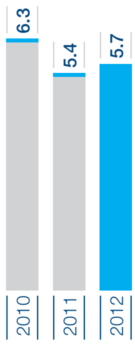
£ million

up 5.2%

Operating Profit

£ million

up 6.0%



Half-Yearly Financial Report 2013
for the six months ended 31 December 2012

Introduction

The Group has delivered strong growth in the first six months of the financial year. This has been driven by solid revenue growth and prudent cost control across all our trading segments and also from the continuing successful integration of *Eurovet* Animal Health B.V. ("*Eurovet*"), acquired in May 2012. Our key strategic segments, European Pharmaceuticals and US Pharmaceuticals, have shown good revenue growth from our own licensed branded veterinary products and specialist pet diets. Contract manufacturing has seen double digit revenue growth and our Services segment has seen robust revenue growth and a modest improvement in operating margin over the corresponding period last year.

Financials

In the six months ended 31 December 2012, Group revenue increased by 20.4% to £252.2 million (2011: £209.5 million). Underlying operating profit rose to £24.3 million (2011: £16.2 million), an increase of 50.1%. Underlying profit before taxation was up 46.9% (an increase of 54.2% at constant currency) to £21.0 million compared to the £14.3 million achieved in 2011. Operating profit was £15.1 million (2011: £11.0 million). Profit before taxation was £11.5 million (2011: £8.9 million).

Underlying basic earnings per share was 18.03 pence (2011: 14.57 pence, adjusted for the bonus element of the Rights Issue). Basic earnings per share was 9.91 pence (2011: 9.27 pence, adjusted for the bonus element of the Rights Issue).

Cash generated from operating activities was £11.6 million compared to the £1.4 million achieved in 2011. In accordance with our normal cash flow cycle, we expect a strong cash inflow in the second half of the financial year.

During the period US$16.0 million (£10.1 million) was paid in relation to deferred and contingent consideration under the terms of the *DermaPet®* acquisition, with a further US$1.5 million (£0.9 million) paid in respect of an in-licence agreement in the US outlined later in this report.

The Group had a working capital outflow in the period of £14.3 million (2011: £17.0 million) which partly reflects the requirement for *NVS* to hold additional inventory as a result of supplier shut downs over the Christmas period.

Net borrowings at 31 December 2012 were £102.0 million compared to £86.7 million at 30 June 2012 and £46.1 million at 31 December 2011 (half year before the *Eurovet* acquisition was completed in May 2012 which was partly funded by £60.0 million of new debt).

Total available bank facilities are currently £130.0 million of which £10.0 million, currently not utilised, is renewable within the next three months.

Interest cover on underlying operating profit was 9.2 times (2011: 12.9 times) excluding gains and losses on foreign exchange movements and derivative contracts.

Dividend

The Board is pleased to declare an interim dividend of 4.34 pence per share (2011: 3.77 pence, restated after being adjusted for the bonus element of the Rights Issue), an increase of 15.1%. The interim dividend is covered 4.1 times by underlying profit after taxation (2011: 3.9 times).

The dividend is payable on 9 April 2013 to Shareholders on the Register of Members at close of business on 15 March 2013. The ordinary shares will become ex dividend on 13 March 2013.

Review

Pharmaceutical Products

The main operational focus within the European Pharmaceuticals segment has been the ongoing integration of *Eurovet*. The first phase of the integration has progressed in line with our strategy and is delivering the expected cost and revenue synergies. A change to the third party *Eurovet* distribution agreement in France was implemented in January 2013; the *Eurovet* brands are now marketed directly through Dechra's French subsidiary. We have also amended our distribution and marketing agreement for Germany and have already begun to realise incremental margin in this territory by selling Dechra products through our new German subsidiary, acquired as part of the *Eurovet* acquisition. The rationalisation and integration of the duplicate sales offices in the UK, Benelux and Denmark has been successfully completed and the integrated sales and marketing functions are performing well.

This segment grew revenues in the first half by 69.7% (83.1% at constant currency) over the corresponding period last year. Excluding *Eurovet*, sales increased by 0.8% (an increase of 8.3% at constant currency), reflecting an exceptional increase last year of £1.2 million in the production of *Vetoryl*® for the US market to ensure continuity of supply whilst we implemented manufacturing changes. This was reversed in the consolidated Group figures. The changes to the distribution arrangements in France and Germany also had an adverse effect on revenue as the previous distributors ran down their inventories, the effect of which will be reversed by incremental sales and margin in the second half of the financial year.

The underlying performance of our key strategic licensed veterinary products was robust. Our own branded pharmaceuticals grew by 10.2%; growth was delivered across all key therapeutic sectors. Farm animal antibiotic usage remains under review in a number of EU markets due to concerns regarding antimicrobial resistance; however, we still saw overall growth in this sector in all markets other than Benelux. Our *Specific*® pet diets grew by 6.1%; this growth was assisted by the re-launch of a new presentation of our wet diet range and also by the introduction of a new recovery diet for animals in rehabilitation.

Manufacturing

Following the acquisition of *Eurovet*, all three manufacturing sites were re-branded as Dechra Manufacturing. After a detailed review of our capabilities we have decided to close the manufacturing facility in Uldum, Denmark. Significant annual cost savings will be made by the transfer of the two licensed pharmaceuticals manufactured at this site into our Skipton facility and by the outsourcing of the unlicensed care products to a third party manufacturer. This rationalisation is expected to be completed by the end of this financial year.

Our external contract manufacturing continues to perform well with revenues at the Skipton site 15.8% ahead of the corresponding period last year; a strong order book has already been secured for the second half.

Following last year's successful US Food and Drug Administration ("FDA") approval of our encapsulation facility, we have now commenced the upgrade of our Skipton injections suite. This will facilitate the global manufacturing of a major product in our development pipeline.

US Pharmaceuticals

DVP US revenues were ahead of the corresponding period last year by 8.7% (9.0% at constant currency). This performance, driven by strong growth of our key product lines, *DermaPet*, *Vetoryl* and *Felimazole*®, was partly offset by ongoing supply problems with our in-licensed dermatological range. These supply problems are expected to be resolved in the second half of the financial year.

In December 2012 we completed an agreement to in-licence three new companion animal products: A-Cyst®, Polyglycan® SA and PolyChews®. Whilst none of these products will make an immediate material impact, they complement our existing range of specialist companion animal products and will make a contribution to the growth of our US business.

The transfer of our veterinary licensed ophthalmic products into a new manufacturer is progressing well and we anticipate a re-launch in 2013. It is unlikely, however, that these products will make a material difference to the current financial year.

Services

Services revenue increased by 5.2% compared to the corresponding period last year. Although pressure remains on discount allowed, operational efficiencies, gross margin improvement and the additional sales volume resulted in a slight margin improvement over the corresponding period last year.

The new ERP system, implemented in July 2011, is now functioning well and is allowing us to offer new services to veterinary practices. Our product, New Indices, has been rolled out to existing and prospective accounts; this software allows veterinary practices to monitor their purchases and benchmark their performance against their peers. The evening ordering time has been extended to 8pm; this service has been well received by veterinary practices who themselves offer evening surgeries. A number of other new IT and logistics services are at an advanced stage of development and will be launched at the British Small Animal Veterinary Association ("BSAVA") Congress in April 2013.

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Dechra Laboratories has delivered 8.2% revenue growth over the corresponding period last year. They have successfully implemented a new laboratory IT system and have also fully integrated their logistics collection service with the *NVS* fleet, which reduces costs and provides an improved service to their customers.

Product Development

There has been no material change to the progress of our product development pipeline, which remains on track to deliver our key novel products and differentiated generics. Additionally a wide range of life cycle and international registrations projects are ongoing.

There have been a number of successful registrations in the period:

- Methoxasol, an antimicrobial for swine and poultry in the EU;
- *Soludox*®, an existing antibiotic, has a new indication for turkeys in the EU;
- *Comfortan*®, a small animal analgesic has received an extension of its approval for use in cats;
- *Libromide*®, used in the treatment of canine epilepsy, has had its EU registration extended into France, Austria, Portugal and Switzerland; and
- *Felimazole*, for feline hyperthyroidism, has been approved in Australia.

The Regulatory team has also been involved in the integration of *Eurovet*; Dechra's pharmacovigilance reporting system has been implemented across the Group and the re-branding of *Eurovet* products into Dechra livery is ongoing.

Acquisition and In-Licence Agreement

We have completed a licensing, supply and distribution agreement for a branded veterinary generic pharmaceutical product for the US market from a US pharmaceutical development company; this will potentially be the first entrant in a significant market segment. Under the terms of the agreement Dechra has paid US$1.5 million upon signing and will pay a further US$3.0 million on approval. There is a potential further contingent payment of US$2.0 million based on achieving US$20.0 million cumulative sales. The product, which is expected to be available to market in 2013, represents a significant growth opportunity for DVP US. Due to commercial sensitivities, further product details will not be released until final marketing approval has been received.

We announced in September 2012 that we had entered into an exclusive licence agreement with SCYNEXIS® Inc. for the development and commercialisation of SCY-641, used for the treatment of canine keratoconjunctivitis sicca ("KCS"). Under the terms of the agreement, Dechra is granted worldwide animal health rights and will be responsible for the remaining clinical development and commercialisation of SCY-641 (SCYNEXIS retains the human health rights to the compound). SCYNEXIS received an upfront fee from Dechra and is eligible to receive further payments based on development milestones and royalties. This worldwide agreement strengthens the Group's novel product development pipeline. The ophthalmic market is a key therapeutic sector for Dechra; the application of SCY-641 in the animal health market offers significantly improved clinical treatment of dry eye in animals and an excellent commercial opportunity.

People

PLC Board

On 31 January 2013 we announced the appointment of Anne-Francoise Nesmes as Chief Financial Officer. She will join the Group and the Board from GlaxoSmithKline PLC ("GSK") on 22 April 2013. Anne-Francoise is a high calibre finance professional with international pharmaceutical, manufacturing and commercial experience. Her skills, energy and experience are exactly in line with the Group's requirements in this key role to take us to the next strategic level.

Tony Griffin, formerly Chief Executive Officer of the *Eurovet* Group, was appointed as a Director of Dechra on 1 November 2012. Tony has played a key role in the integration of the *Eurovet* business into Dechra. In addition to his PLC Board responsibilities Tony's principal responsibility is his role as the Managing Director of Dechra Veterinary Products Europe ("DVP EU").

Two new Independent Non-Executive Directors have been appointed to the Board. Julian Heslop commenced his role on 1 January 2013 and Ishbel Macpherson on 1 February 2013. Julian served as Chief Financial Officer of GSK between 2005 and 2011, having previously held senior roles in both GSK and Grand Metropolitan PLC. Ishbel currently holds a number of Non-Executive roles and has previously had 20 years' experience as an investment banker specialising in mid-market corporate finance.

Senior Management

At a senior management level there have been three subsidiary board appointments: Chris Ashcroft has been appointed Operations Director of Dechra Manufacturing, Skipton; Chris Hunter has been appointed as Operations Manager of Dechra Laboratories and, following 16 successful years within *NVS,* Naomi McCallum has been promoted to the role of Buying Director.

Outlook

Trading within our veterinary products segment continues to be robust; however, we remain cautious regarding the overall economic environment and are also conscious of the pressure on European veterinarians to self-regulate a reduction in antibiotic usage; we continue to monitor closely the situation.

A solid first half performance in our Services segment will be offset by poor sales in January 2013 due to bad weather during which footfall through veterinary practices saw a significant decline. This should not, however, detract from an overall recovery in this segment following a soft performance in the previous financial year.

The Group continues to deliver its strategic objectives; with additional synergies from the *Eurovet* acquisition, new product introductions, improved efficiency and international expansion we remain well positioned to maintain our strong growth.

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for the six months ended 31 December 2012

Principal 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 long term strategic objectives. The Board has ultimate responsibility for risk management within the Group and ensures that 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 principal risks and uncertainties, as identified by the Board, which could impact the remaining six months of the current financial year, are as follows:

Strategy	Risk	How we mitigate the risk
To develop an international high growth, cash generative, specialist veterinary products business	Competitor product launched against one of our leading brands which could lead to erosion/ loss of value and market share	• Product improvement plans and marketing strategies are reviewed on a regular basis • Where competitor products are launched a response strategy is established and followed by our marketing team to highlight any unique selling points or competitive advantages or to position our products defensively to minimise competitor impact • Market research is conducted in order to allow the marketing team to better understand customer needs and ensure that our products fulfil the identified requirements • Any product patents are monitored and consideration given to the formulation of a defensive strategy towards the end of the life of the patent
	Industry wide focus on reduction of antibiotic use in animal health leading to a reduction of sales in our Farm Animal Products sector	• Regular contact is made with all relevant veterinary authorities to ensure that we have a comprehensive understanding of anticipated regulatory changes; thereby ensuring we closely monitor the situation and can react quickly to any new market/regulatory developments • Focus is placed on developing new markets with existing products where our current market share is low and ensuring that we increase market share in territories where there is pressure to reduce antibiotic use • Programme of development of new products that minimise antimicrobial resistance concerns
	Slow down of growth/ decline in key European markets	• A European wide database has been established in order to allow us to monitor market development closely • Alongside this a five year strategic plan is being developed which will be monitored by the DVP EU Board on a regular basis
	Loss of key products in Europe due to regulatory pressures	• Regular contact is maintained with all relevant regulatory bodies in order to build and/or strengthen relationships and ensure good communication lines • The regulatory and legal teams remain constantly updated in respect of proposed/actual changes in order to ensure that the business is equipped to deal with and adhere to such changes • Where any changes are identified which could affect our ability to continue to market and sell any of our products a response team is created in order to mitigate such risk and to retain effective communications with the relevant regulators
To sustain growth and innovate in our Services business	The failure of a major customer or supplier (this risk applies across both the Services and Pharmaceuticals segments)	• The business units monitor the financial status of both key customers and suppliers and maintain regular contact with them (including face to face meetings) • Where it becomes evident that issues in relation to manufacturing/supply may arise alternative suppliers are identified and detailed plans drafted. Where a manufacturing transfer is required stock is built up in order to avoid/mitigate an out of stock situation • In respect of manufacturing, a 'second sourcing' project for key materials has been established and maintained • All contracts with key suppliers and customers are reviewed from both a commercial and legal perspective to ensure that assignment of the contract is allowed should there be a change of control of either of the contracting parties
	Increasingly competitive UK veterinary market place (resulting in margin pressure)	• The *NVS* management team are committed to providing high levels of service and are developing innovative solutions to support veterinary practices to differentiate ourselves from our competitors

Michael Redmond
Non-Executive Chairman
26 February 2013

Ian Page
Chief Executive
26 February 2013

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 (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 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
26 February 2013

Condensed Consolidated Income Statement

for the six months ended 31 December 2012

	Note	Six months ended 31.12.12 £'000	Six months ended 31.12.11 £'000	Year ended 30.06.12 £'000
Revenue	2	**252,223**	209,511	426,041
Cost of sales		**(189,443)**	(163,038)	(326,782)
Gross profit		**62,780**	46,473	99,259
Distribution costs		**(9,745)**	(8,877)	(17,979)
Administrative expenses		**(37,969)**	(26,607)	(60,390)
Operating profit	2	**15,066**	10,989	20,890
Underlying operating profit	8	**24,287**	16,179	36,601
Non-underlying items*	8	**(9,221)**	(5,190)	(15,711)
Operating profit		**15,066**	10,989	20,890
Finance income	3	**84**	290	219
Underlying finance expense	4	**(3,395)**	(2,136)	(3,854)
Non-underlying items*	4	**(226)**	(199)	(435)
Finance expense		**(3,621)**	(2,335)	(4,289)
Profit before taxation	2	**11,529**	8,944	16,820
Underlying profit before taxation	8	**20,976**	14,333	32,966
Non-underlying items*	8	**(9,447)**	(5,389)	(16,146)
Profit before taxation		**11,529**	8,944	16,820
Income tax expense	5	**(2,917)**	(2,236)	(5,071)
Profit for the period attributable to owners of the parent		**8,612**	6,708	11,749
Underlying profit after taxation		**15,669**	10,548	24,302
Non-underlying items*		**(7,057)**	(3,840)	(12,553)
Profit for the period attributable to owners of the parent		**8,612**	6,708	11,749
Earnings per share				
Basic	7	**9.91p**	9.27p†	15.65p†
Diluted	7	**9.89p**	9.24p†	15.60p†
Dividend per share	6	**4.34p**	3.77p†	12.27p†

* Non-underlying items comprise amortisation of acquired intangibles, acquisition expenses, rationalisation costs, loss on extinguishment of debt and the unwinding of discounts on deferred and contingent consideration.
† Restated to reflect the impact of the bonus element of the Rights Issue.

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 31 December 2012

	Six months ended 31.12.12 £'000	Six months ended 31.12.11 £'000	Year ended 30.06.12 £'000
Profit for the period	**8,612**	6,708	11,749
Other comprehensive income:			
Effective portion of changes in fair value of cash flow hedges	**(768)**	(188)	(419)
Cash flow hedges recycled to income statement	**230**	199	429
Foreign currency translation differences for foreign operations	**4,833**	(3,667)	(8,434)
Income tax relating to components of other comprehensive income	**124**	(3)	(2)
Total comprehensive income for the period attributable to owners of the parent	**13,031**	3,049	3,323

Condensed Consolidated Statement of Financial Position

at 31 December 2012

	Note	**As at 31.12.12 £'000**	As at 31.12.11 £'000	As at 30.06.12 £'000
ASSETS				
Non-current assets				
Intangible assets		**222,869**	116,835	225,872
Property, plant and equipment		**16,479**	7,344	16,720
Total non-current assets		**239,348**	124,179	242,592
Current assets				
Inventories		**58,394**	48,398	57,281
Trade and other receivables		**73,406**	64,712	72,113
Cash and cash equivalents	9	**16,603**	15,131	32,435
Total current assets		**148,403**	128,241	161,829
Total assets		**387,751**	252,420	404,421
LIABILITIES				
Current liabilities				
Borrowings	9	**(9,890)**	(8,474)	(5,106)
Trade and other payables		**(67,750)**	(64,213)	(79,863)
Deferred and contingent consideration		**(2,157)**	(300)	(10,337)
Current tax liabilities		**(7,717)**	(4,632)	(8,155)
Total current liabilities		**(87,514)**	(77,619)	(103,461)
Non-current liabilities				
Borrowings	9	**(108,677)**	(52,728)	(114,046)
Deferred and contingent consideration		**(4,609)**	(13,593)	(3,526)
Employee benefit obligations		**(499)**	-	(363)
Deferred tax liabilities		**(25,983)**	(11,896)	(29,343)
Total non-current liabilities		**(139,768)**	(78,217)	(147,278)
Total liabilities	2	**(227,282)**	(155,836)	(250,739)
Net assets		**160,469**	96,584	153,682
EQUITY				
Issued share capital		**871**	668	869
Share premium account		**123,192**	63,890	122,642
Hedging reserve		**(700)**	(286)	(286)
Foreign currency translation reserve		**1,150**	1,084	(3,683)
Merger reserve		**1,770**	1,770	1,770
Retained earnings		**34,186**	29,458	32,370
Total equity attributable to owners of the parent		**160,469**	96,584	153,682

Condensed Consolidated Statement of Changes in Shareholders' Equity

for the six months ended 31 December 2012

	Issued share capital £'000	Share premium account £'000	Hedging reserve £'000	Foreign currency translation reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
	Attributable to owners of the parent						
Six months ended 31 December 2011							
At 1 July 2011	664	63,559	(294)	4,751	1,770	27,883	98,333
Profit for the period	–	–	–	–	–	6,708	6,708
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	(139)	–	–	–	(139)
Foreign currency translation differences for foreign operations, net of tax	–	–	–	(3,667)	–	–	(3,667)
Cash flow hedges recycled to income statement, net of tax	–	–	147	–	–	–	147
Total comprehensive income for the period	–	–	8	(3,667)	–	6,708	3,049
Transactions with owners							
Dividends paid	–	–	–	–	–	(5,584)	(5,584)
Share-based payments	–	–	–	–	–	451	451
Shares issued	4	331	–	–	–	–	335
Total contributions by and distribution to owners	4	331	–	–	–	(5,133)	(4,798)
At 31 December 2011	668	63,890	(286)	1,084	1,770	29,458	96,584
Year ended 30 June 2012							
At 1 July 2011	664	63,559	(294)	4,751	1,770	27,883	98,333
Profit for the period	–	–	–	–	–	11,749	11,749
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	(335)	–	–	–	(335)
Foreign currency translation differences for foreign operations, net of tax	–	–	–	(8,434)	–	–	(8,434)
Cash flow hedges recycled to income statement, net of tax	–	–	343	–	–	–	343
Total comprehensive income for the period	–	–	8	(8,434)	–	11,749	3,323
Transactions with owners							
Dividends paid	–	–	–	–	–	(8,325)	(8,325)
Share-based payments	–	–	–	–	–	1,063	1,063
Shares issued	205	59,083	–	–	–	–	59,288
Total contributions by and distribution to owners	205	59,083	–	–	–	(7,262)	52,026
At 30 June 2012	869	122,642	(286)	(3,683)	1,770	32,370	153,682
Six months ended 31 December 2012							
At 1 July 2012	**869**	**122,642**	**(286)**	**(3,683)**	**1,770**	**32,370**	**153,682**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**8,612**	**8,612**
Effective portion of changes in fair value of cash flow hedges, net of tax	**–**	**–**	**(591)**	**–**	**–**	**–**	**(591)**
Foreign currency translation differences for foreign operations, net of tax	**–**	**–**	**–**	**4,833**	**–**	**–**	**4,833**
Cash flow hedges recycled to income statement, net of tax	**–**	**–**	**177**	**–**	**–**	**–**	**177**
Total comprehensive income for the period	**–**	**–**	**(414)**	**4,833**	**–**	**8,612**	**13,031**
Transactions with owners							
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(7,390)**	**(7,390)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**594**	**594**
Shares issued	**2**	**550**	**–**	**–**	**–**	**–**	**552**
Total contributions by and distribution to owners	**2**	**550**	**–**	**–**	**–**	**(6,796)**	**(6,244)**
At 31 December 2012	**871**	**123,192**	**(700)**	**1,150**	**1,770**	**34,186**	**160,469**

Condensed Consolidated Statement of Cash Flows

for the six months ended 31 December 2012

	Note	Six months ended **31.12.12 £'000**	Six months ended 31.12.11 £'000	Year ended 30.06.12 £'000
Cash flows from operating activities				
Profit for the period		**8,612**	6,708	11,749
Adjustments for:				
Depreciation		**1,305**	772	1,584
Amortisation and impairment		**9,232**	6,051	12,762
(Gain)/loss on disposal of intangible assets		**—**	(1)	47
Gain on sale of property, plant and equipment		**(4)**	—	(45)
Finance income	3	**(84)**	(290)	(219)
Finance expense	4	**3,621**	2,335	4,289
Equity-settled share-based payment expense		**334**	562	1,001
Income tax expense		**2,917**	2,236	5,071
Operating cash flow before changes in working capital		**25,933**	18,373	36,239
Increase in inventories		**(992)**	(8,317)	(4,846)
(Increase)/decrease in trade and other receivables		**(974)**	39	(1,827)
Decrease in trade and other payables		**(12,345)**	(8,742)	(438)
Cash generated from operating activities before interest and taxation		**11,622**	1,353	29,128
Interest paid		**(2,697)**	(1,497)	(2,645)
Income taxes paid		**(5,125)**	(3,822)	(7,241)
Net cash inflow/(outflow) from operating activities		**3,800**	(3,966)	19,242
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		**4**	6	50
Interest received		**84**	135	219
Acquisition of subsidiaries	10	**(10,083)**	(500)	(112,221)
Purchase of property, plant and equipment		**(957)**	(602)	(1,645)
Capitalised development expenditure		**(945)**	(182)	(447)
Purchase of other intangible non-current assets		**(1,291)**	(515)	(6,300)
Net cash outflow from investing activities		**(13,188)**	(1,658)	(120,344)
Cash flows from financing activities				
Proceeds from the issue of share capital		**552**	335	60,575
Share issue expenses		**—**	—	(1,287)
New borrowings		**—**	—	120,000
Expenses of raising new borrowings		**—**	—	(2,600)
Repayment of borrowings		**(508)**	(4,295)	(64,328)
Resetting of foreign currency borrowings		**696**	(199)	(327)
Dividends paid		**(7,390)**	(5,584)	(8,325)
Net cash (outflow)/inflow from financing activities		**(6,650)**	(9,743)	103,708
Net (decrease)/increase in cash and cash equivalents		**(16,038)**	(15,367)	2,606
Cash and cash equivalents at start of period		**32,435**	30,496	30,496
Exchange differences on cash and cash equivalents		**206**	2	(667)
Cash and cash equivalents at end of period		**16,603**	15,131	32,435
Reconciliation of net cash flow to movement in net borrowings				
Net (decrease)/increase in cash and cash equivalents		**(16,038)**	(15,367)	2,606
Repayment of borrowings		**508**	4,295	64,328
New borrowings		**—**	—	(120,000)
Expenses of raising new borrowings		**—**	—	2,600
New finance leases		**(329)**	—	(1,010)
Exchange differences on cash and cash equivalents		**206**	2	(667)
Retranslation of foreign borrowings		**696**	(910)	(429)
Other non-cash changes		**(290)**	—	(54)
Movement in net borrowings in the period		**(15,247)**	(11,980)	(52,626)
Net borrowings at start of period		**(86,717)**	(34,091)	(34,091)
Net borrowings at end of period	9	**(101,964)**	(46,071)	(86,717)

Notes to the Financial Statements

for the six months ended 31 December 2012

1. Basis of Preparation and Principal Accounting Policies

Dechra Pharmaceuticals PLC ("Dechra" or the "Company") is a Company domiciled in the UK. The condensed set of financial statements as at, and for, the six months ended 31 December 2012 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 2012 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 2012 and the unaudited financial information in the half-yearly financial report for the six months ended 31 December 2011. The comparative figures for the financial year ended 30 June 2012 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's Auditor and delivered to the Registrar of Companies. The report of the Auditor (i) was unqualified, (ii) did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

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

The condensed set of financial statements for the six months ended 31 December 2012 are unaudited but have been reviewed by the Auditor. The independent review report is set out on page 20.

Statement of Compliance

The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU. The condensed set of financial statements does not include all of the information required for full annual financial statements, and should be read in conjunction with the Group financial statements as at, and for, the year ended 30 June 2012.

This condensed set of financial statements was approved by the Board of Directors on 26 February 2013.

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 2012, except where new or revised accounting standards have been applied.

Estimates and Judgements

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

New and Revised Standards

The following standards/revisions to standards and interpretations are applicable to the Group and have been adopted as they are mandatory for the year ending 30 June 2013:

- Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income'
- Amendments to IAS 12 'Income Taxes – Deferred Tax: Recovery of Underlying Assets'

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

Notes to the Financial Statements
for the six months ended 31 December 2012

2. Segmental Analysis

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

The Services segment comprises *National Veterinary Services*, Dechra Laboratory Services and Dechra Specialist Laboratories. This segment services UK veterinary practices in both the companion animal and livestock sectors.

The European Pharmaceuticals segment comprises Dechra Veterinary Products EU ("DVP EU"), *Eurovet* and Dechra Manufacturing. Dechra Manufacturing manufactures the vast majority of our own branded licensed pharmaceutical products, which are marketed through DVP EU and *Eurovet*. This segment 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.

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

		Six months ended		Year ended
		31.12.12	31.12.11	30.06.12
		£'000	£'000	£'000
Revenue by segment				
Services	— total	**167,739**	159,500	315,672
	— intersegment	**(359)**	(260)	(518)
European Pharmaceuticals	— total	**81,935**	48,281	104,764
	— intersegment	**(7,128)**	(7,241)	(13,443)
US Pharmaceuticals	— total	**10,036**	9,231	20,363
	— intersegment	**—**	—	(797)
		252,223	209,511	426,041
Operating profit/(loss) by segment				
Services		**5,720**	5,397	11,056
European Pharmaceuticals		**21,171**	12,780	28,904
US Pharmaceuticals		**2,963**	2,302	5,863
Pharmaceuticals research and development		**(3,457)**	(2,405)	(5,735)
Segment operating profit		**26,397**	18,074	40,088
Corporate and other unallocated costs		**(2,110)**	(1,895)	(3,487)
Underlying operating profit		**24,287**	16,179	36,601
Amortisation of acquired intangibles		**(8,360)**	(5,190)	(10,871)
Rationalisation costs		**(861)**	—	(2,525)
Acquisition costs		**—**	—	(2,315)
Total operating profit		**15,066**	10,989	20,890
Finance income		**84**	290	219
Finance expense		**(3,621)**	(2,335)	(4,289)
Profit before taxation		**11,529**	8,944	16,820
Total liabilities by segment				
Services		**(40,340)**	(47,865)	(55,244)
European Pharmaceuticals		**(25,157)**	(13,415)	(22,058)
US Pharmaceuticals		**(7,051)**	(14,527)	(14,221)
Pharmaceuticals research and development		**(315)**	(249)	(685)
Segment liabilities		**(72,863)**	(76,056)	(92,208)
Corporate loans and revolving credit facility		**(117,805)**	(60,700)	(118,229)
Corporate accruals and other payables		**(2,914)**	(2,552)	(2,804)
Current and deferred tax liabilities		**(33,700)**	(16,528)	(37,498)
		(227,282)	(155,836)	(250,739)

3. Finance Income

	Six months ended 31.12.12 £'000	Six months ended 31.12.11 £'000	Year ended 30.06.12 £'000
Recognised in the income statement			
Finance income arising from:			
— cash and cash equivalents	**26**	135	120
— loans and receivables	**—**	—	89
— derivatives at fair value through profit or loss	**—**	155	—
— foreign exchange gains	**—**	—	—
— return on employee benefit scheme assets	**58**	—	10
	84	290	219

4. Finance Expense

	Six months ended 31.12.12 £'000	Six months ended 31.12.11 £'000	Year ended 30.06.12 £'000
Underlying			
Finance expense arising from:			
— financial liabilities at amortised cost	**2,665**	1,386	2,944
— foreign exchange losses	**662**	750	898
— interest cost in relation to employee benefit obligations	**68**	—	12
Underlying finance expense	**3,395**	2,136	3,854
Non-underlying			
Loss on extinguishment of debt	**—**	—	158
Unwinding of discounts on deferred and contingent consideration	**226**	199	277
Non-underlying finance expense	**226**	199	435
Total finance expense	**3,621**	2,335	4,289

5. Income Tax Expense

The tax charge for the six months ended 31 December 2012 has been based on the estimated effective rate for the year ending 30 June 2013 of 25.3% (six months ended 31 December 2011: 25.0%, year ended 30 June 2012: 30.1%).

6. Dividends

The final dividend for the year ended 30 June 2012 of 7.72p per share costing £7,390,000 has been paid in the period.

The Directors have declared an interim dividend of 4.34p per share (2011: 3.77p, restated to reflect the bonus element of the Rights Issue) costing £3,779,000 (2011: £2,741,000). It is payable on 9 April 2013 to Shareholders whose names are on the Register of Members at close of business on 15 March 2013. The ordinary shares will become ex dividend on 13 March 2013.

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 2013.

Notes to the Financial Statements

for the six months ended 31 December 2012

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
	31.12.12	31.12.11	30.06.12
	Pence	Pence	Pence
Basic earnings per share			
— underlying*	**18.03**	14.57†	32.37†
— basic	**9.91**	9.27†	15.65†
Diluted earnings per share			
— underlying*	**17.99**	14.53†	32.27†
— basic	**9.89**	9.24†	15.60†

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

	£'000	£'000	£'000
Earnings for underlying basic and underlying diluted earnings per share calculations	**15,669**	10,548	24,302
Earnings for basic and diluted earnings per share	**8,612**	6,708	11,749

	No.	No.	No.
Weighted average number of ordinary shares for basic earnings per share	**86,924,375**	66,489,328	75,082,169
Impact of share options	**184,984**	202,109	224,690
Weighted average number of ordinary shares for diluted earnings per share	**87,109,359**	66,691,437	75,306,859

* Underlying measures exclude non-underlying items as defined on the Condensed Consolidated Income Statement
† Restated to reflect the impact of the bonus element of the Rights Issue

8. Underlying Operating Profit and Profit before Taxation

	Six months ended		Year ended
	31.12.12	31.12.11	30.06.12
	£'000	£'000	£'000
Operating profit			
Underlying operating profit is calculated as follows:			
Operating profit	**15,066**	10,989	20,890
Amortisation of intangible assets acquired as a result of business combinations	**8,360**	5,190	10,871
Expenses of the acquisition of *Eurovet* Animal Health B.V.	**—**	—	2,315
Rationalisation costs	**861**	—	2,525
Underlying operating profit	**24,287**	16,179	36,601
Profit before taxation			
Underlying profit before taxation is calculated as follows:			
Profit before taxation	**11,529**	8,944	16,820
Amortisation of intangible assets acquired as a result of business combinations	**8,360**	5,190	10,871
Expenses of the acquisition of *Eurovet* Animal Health B.V.	**—**	—	2,315
Rationalisation costs	**861**	—	2,525
Unwinding of discounts on deferred and contingent consideration	**226**	199	277
Loss on extinguishment of debt	**—**	—	158
Underlying profit before taxation	**20,976**	14,333	32,966

9. Analysis of Net Borrowings

	As at 31.12.12 £'000	As at 31.12.11 £'000	As at 30.06.12 £'000
Bank loans and overdraft	**(117,805)**	(60,656)	(118,211)
Finance leases and hire purchase contracts	**(762)**	(546)	(941)
Cash and cash equivalents	**16,603**	15,131	32,435
	(101,964)	(46,071)	(86,717)

10. Acquisition of Dermapet, Inc.

During the period the Group paid a further US$16,000,000 (£10,083,000) in respect of the acquisition of *DermaPet*, Inc. A payment of US$15,000,000 was made which related to the achievement of a contingent milestone target, the remaining US$1,000,000 related to deferred consideration which was paid on the second anniversary of the completion date.

The maximum further consideration payable is US$6,000,000 of which US$5,000,000 is contingent upon revenue exceeding US$20,000,000 in any rolling 12 month period commencing on the first anniversary of completion and ending on the sixth anniversary of completion. The remaining US$1,000,000 is deferred until the fourth anniversary of completion.

11. Foreign Exchange Rates

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

	Average rate for the six months ended		Closing rate at
	31.12.12	31.12.11	31.12.12
Danish krone	**9.3154**	8.5769	9.1098
US dollar	**1.5926**	1.5919	1.6153
Euro	**1.2503**	1.1521	1.2220

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

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 2012 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 2012 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

G Neale

Graham Neale
for and on behalf of KPMG Audit Plc
Chartered Accountants
26 February 2013

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Trademarks

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