Dechra

Pharmaceuticals PLC

Half-Yearly Financial Report 2018

for the six months ended 31 December 2017 (the Period)

Monday, 26 February 2018

"The Group has delivered a strong performance during the Period. The Board remains confident that we can continue to implement our strategy and meet our expectations for the current financial year, and deliver further growth in the future."

Ian Page, Chief Executive Officer

Highlights

- Trading in the Period was strong and in line with management expectations.
- Reported Group revenue for the Period increased by 11.2% at Constant Exchange Rate (CER) (12.5% at Actual Exchange Rate (AER)).
- European Pharmaceuticals revenue growth was 5.8% at CER (9.2% at AER).
- North American Pharmaceuticals revenue growth was 20.7% at CER (18.3% at AER).
- Underlying operating profit growth of 22.3% at CER (22.6% at AER) with operating margin expansion of 220 bps to 24.6%.
- Strong cash conversion of 96.2% includes pre product launch stock builds.
- Small bolt on acquisition of RxVet Limited, New Zealand, was completed.
- Major acquisition of AST Farma and Le Vet announced post Period end.
- Underlying diluted EPS growth of 19.8% to 37.58 pence. Interim dividend increase by 20.0% to 7.33 pence

Financial Summary

	Six months ended 31.12.17 £m	Restated Six months ended 31.12.16 £m	Growth at actual exchange rate	**Growth at constant exchange rate**
Revenue	**194.1**	172.6	12.5%	**11.2%**
Underlying				
Operating profit	**47.4**	38.6	22.6%	**22.3%**
Operating profit %	**24.4%**	22.4%		
EBITDA	**51.0**	41.6	22.5%	**22.0%**
Diluted EPS	**37.58p**	31.25p	20.3%	**19.8%**
Reported				
Operating profit	**26.3**	14.0	87.1%	
Diluted EPS	**28.69p**	10.66p	169.1%	

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

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Analysts Briefing: Today at 10.30am (UK time)

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Notes: Foreign Exchange Rates

FY2018 H1 Average	EUR 1.1205: GBP 1.0	USD 1.3176: GBP 1.0
FY2018 H1 Closing	EUR 1.1271: GBP 1.0	USD 1.3517: GBP 1.0
FY2017 H1 Average	EUR 1.1698: GBP 1.0	USD 1.2886: GBP 1.0
FY2017 H1 Closing	EUR 1.1680: GBP 1.0	USD 1.2311: GBP 1.0
FY2017 Average	EUR 1.1681: GBP 1.0	USD 1.2735: GBP 1.0

Half-Yearly Financial Report 2018
for the six months ended 31 December 2017

Introduction
The Group has delivered a strong performance throughout the Period, driven by solid revenue growth in our European Pharmaceuticals Segment and by excellent revenue growth in our North American Pharmaceuticals Segment. All product categories delivered growth at CER: Companion Animal Products (CAP) 18.4%, Equine 19.3%, Food producing Animal Products (FAP) 3.2% and Nutrition (Pet Diets) 2.9%. The operating profit performance was enhanced by operational leverage, prudent cost control and efficiency gains within the Manufacturing and Supply Chain. A small acquisition was completed in the Period providing us with access to the New Zealand market, but more significantly a major acquisition was completed post the Period end on 13 February 2018 which will materially enhance our EU product portfolio and pipeline.

Financial Review
Group revenue in the Period was £194.1 million, a growth of 11.2% at CER (12.5 % at AER).

- Revenue in EU Pharmaceuticals grew by 5.8% at CER (9.2% at AER) to £120.9 million. Excluding third party contract manufacturing, and treating Apex on a like-for-like basis*, revenue increased by 4.2% at CER (7.6% at AER) to £107.2 million.
- Our North American Segment (NA Pharmaceuticals) revenue grew strongly to £73.2 million, an increase of 20.7% at CER (18.3% at AER).

Revenue	**Six months ended 31.12.17 £m**	Six months ended 31.12.16 £m	Growth at actual exchange rate	**Growth at constant exchange rate**
EU Pharmaceuticals – Existing*	**117.9**	110.7	6.5%	**3.2%**
NA Pharmaceuticals – Existing	**73.2**	61.9	18.3%	**20.7%**
Group Total - Existing	**191.1**	172.6	10.7%	**9.5%**
EU Pharmaceuticals – Acquisitions*	**3.0**	–	–	**–**
NA Pharmaceuticals – Acquisitions	**–**	–	–	**–**
Group Total - Acquisitions	**3.0**	–	–	**–**
Group Total	**194.1**	172.6	12.5%	**11.2%**

All product categories posted growth in the Period, with the exception of Other, where the Group is progressively implementing a strategic exit from this non-core third party contract manufacturing business:

Revenue	**Six months ended 31.12.17 £m**	Six months ended 31.12.16 £m	Growth at actual exchange rate	**Growth at constant exchange rate**
CAP	**124.7**	104.9	18.9%	**18.4%**
Equine	**16.4**	13.7	19.3%	**19.3%**
FAP	**24.2**	22.5	7.5%	**3.2%**
Subtotal Pharmaceuticals	**165.3**	141.1	17.1%	**16.1%**
Nutrition	**14.8**	13.9	6.7%	**2.9%**
Other	**14.0**	17.6	(19.9%)	**(21.6%)**
Total	**194.1**	172.6	12.5%	**11.2%**

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

Group underlying gross margin percentage in the Period grew by 250 bps to 55.9% (2017: 53.4%) mainly due to a more favourable sales mix. Group Sales, General and Administration (SG&A) expenses increased to £52.4 million, broadly similar as a percentage of revenue at 27.0% (2017: 27.2%).

*As Apex was acquired on 14 October 2016, the amounts represented by EU Pharmaceuticals - Acquisitions represent the Apex results for the period 1 July 2017 to 14 October 2017. In the current period and prior period, the results from 14 October to 31 December are included within EU Pharmaceuticals - Existing, which is referred to as a like-for-like basis.

Group underlying operating profit in the Period was £47.4 million, a growth of 22.3% at CER (22.6% at AER), with underlying operating margin increasing by 220 bps to 24.6% as the revenue growth continued to translate to operating leverage.

- Operating profit in EU Pharmaceuticals increased to £34.2 million, a growth of 8.8% at CER (11.0% at AER). Excluding third party contract manufacturing, and treating Apex on a like-for-like basis*, operating profit increased by 4.2% at CER (6.1% at AER) to £31.8 million. Operating margin grew 80 bps to 28.6%.
- NA Pharmaceuticals' operating profit grew strongly to £25.5 million, an increase of 44.0% at CER (41.1% at AER), with the operating margin expanding strongly to 34.9% from operating leverage, a growth of 560 bps.
- Pharmaceuticals R&D underlying expenditure increased to £8.4 million, an increase of 26.5% at CER (27.2% at AER), representing 4.3% of revenue (2017: 3.8% of revenue) as further product development opportunities were started. Corporate costs increased to £3.9 million, an increase of 8.2% at CER (8.2% at AER), representing 2.1% of revenue (2017: 2.0% of revenue).

Net underlying finance expense increased by 172.8% to £3.0 million (2017: £1.1 million). Underlying profit before taxation increased by 17.6% at CER to £44.3 million (18.0% at AER), reflecting the growth in operating profit.

The Group underlying effective tax rate (ETR) has reduced slightly to 20.5% (2017 full year: 21.9%), reflecting both the increased mix of US originating profits, as well as the reduction in USA tax rates following the passing into law of the Tax Cuts and Jobs Act (TCJA) in the Period. The total ETR of (41.5%) includes the full impact of the exceptional tax credit of £10.8 million resulting from the remeasurement of deferred tax assets and liabilities for the change in the USA federal tax rate from 35.0% to 21.0%. The Group ETR is expected to remain at c. 21.0% for the next financial year, including the effect of USA rates, sales mix and the acquisition of AST Farma/Le Vet.

Underlying diluted EPS grew by 20.3% (at AER) to 37.58 pence (2017: 31.25 pence). Reported diluted EPS grew by 169.2% (at AER) to 28.69 pence (2017: 10.66 pence).

Non-underlying items of £8.3 million (2017: £19.2 million) include operating expenses of £21.1 million (2017: £24.6 million) (amortisation of acquired intangibles, acquisition costs and rationalisation costs associated with the manufacturing footprint reorganisation) and amortisation of acquired joint venture intangibles of £0.1 million; finance expenses of £4.1 million (unwinding of discount and foreign exchange on deferred consideration, old debt facility arrangement costs on Revolving Credit Facility (RCF) refinanced in July 2017); tax credit of £17.0 million (revaluation of deferred tax balances following the TCJA in the USA). Reported operating profit was £26.3 million (2017: £14.0 million).

Net cash inflow from operating activities was £38.9 million, with a cash conversion rate of 96.2%; this included stock builds for product launches scheduled for second half of 2018 financial year. EBITDA increased to £51.0 million, an increase of 22.0% at CER (22.5% at AER). Net debt decreased to £98.7 million (from £120.0 million at 30 June 2017), representing net debt to EBITDA banking covenant leverage of 1.0 times.

Dividend

The Board is pleased to declare an interim dividend of 7.33 pence per share, which represents a growth of 20.0 % compared to the prior year.

The dividend will be payable on 6 April 2018 to shareholders on the Register at 9 March 2018. The ordinary shares will become ex-dividend on 8 March 2018.

Operational Review

European Pharmaceuticals

In the Period our European Pharmaceuticals Segment reported revenues increased by 5.8% at CER (9.2% at AER). Excluding third party contract manufacturing and treating Apex on a like-for-like* basis, revenues increased by 4.2% at CER (7.6% at AER). Apex, an Australian business acquired in October 2016, which is part of Dechra Veterinary Products International, is included with the European Pharmaceuticals Segment. CAP continues to be the main growth driver, with sales increasing in all of our focus therapy areas. We have delivered FAP revenue growth at 3.7%, a solid performance in a market still experiencing pressure to reduce antibiotic usage. Nutrition is recovering with growth of 2.9% following the resolution of historic supply and palatability problems, and is in the process of being relaunched with new packaging design and improved palatability. Despite increasing market penetration of *Osphos*®, our Equine sales declined by 4.3% due to continued generic competition to *Equipalazone*®, our largest and oldest product for horses.

*As Apex was acquired on 14 October 2016, the amounts represented by EU Pharmaceuticals - Acquisitions represent the Apex results for the period 1 July 2017 to 14 October 2017. In the current period and prior period, the results from 14 October to 31 December are included within EU Pharmaceuticals - Existing, which is referred to as a like-for-like basis.

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North American Pharmaceuticals
In the Period our North American Pharmaceuticals Segment reported revenues increased by 20.7% at CER (18.3% at AER). This was a very pleasing performance as it was achieved in an environment where distributors were selling white label goods to compete with Carprovet (one of our major products), and in a period when two natural disasters disrupted trading in Florida and Texas. We delivered excellent growth from both CAP, across all therapeutic areas of focus, and Equine, which was predominantly from *Osphos*. CAP and Equine are currently the only two categories we operate in within the North American market. Investment continues to be made in the US sales team where we have increased the reporting regions from four to six adding two regional managers, 20 field based sales managers and two new internal sales personnel.

Acquisition
Within the Period we completed one small acquisition and have subsequently announced, post the Period end, a major acquisition of two associated Dutch companies.

In December 2017 we completed the acquisition of RxVet Limited, a small CAP business in New Zealand. RxVet have been Dechra's distributor since 2010, with revenue in the year to March 2017 of NZ$1.4 million; sales of Dechra products account for approximately half of this.

On 13 February 2018 we completed the acquisition of AST Farma and Le Vet for €340.0 million on a debt-free cash-free basis, paid for 75.0% in cash and 25.0% in Dechra shares which are subject to a two year lock-in. Part of the cash consideration was funded by £105.0 million (net of discounts) placing and the balance from new debt facilities. AST Farma strengthens our position within the Dutch market and provides us with a direct to veterinarian relationship with the potential to increase sales of our existing brands. Le Vet strengthens our product portfolio across Europe with 60 generic plus registrations which can be sold through our existing sales and marketing networks. The initial phase of integration is underway and proceeding to plan; further details will be provided on our progress at the announcement of our year end results in September 2018.

Pipeline Delivery
Several new product registrations were achieved and numerous new products launched within the Period.

A number of new FAP registrations were achieved in Europe:

- *Solacyl*® Water Soluble Powder, a line extension of an existing product for turkeys;
- *Diatrim*®, an antibiotic for cattle mastitis; and
- *Avishield*® IBH120, our second EU registered poultry vaccine developed in our Croatian facility.

Numerous international registrations were also achieved, including products for New Zealand, Thailand, Kazakhstan and Australia.

In North America we have extended the range of our *Vetivex*® critical care fluids and have launched all dosage sizes of AmoxiClav Tablets. The final low dose strength of AmoxiClav was made available after working closely with our manufacturing partner who implemented a new production line specifically for this tablet size. In Mexico we have launched *Osphos*, *Vetoryl*®, *Cyclospray*® and several products from our dermatology range.

In addition, to our own pipeline, we have also acquired new products from licensing deals:

- Redonyl Ultra, a dermatological supplement from Premune, has been launched in the EU and we are currently developing it into a soft chew for the US market;
- Vetradent, a water additive to combat biofilms from Kane Biotech Inc., extending our dental range, has been launched in the US; and
- Bioequine, our first vaccine from Bioveta, for equine herpes virus, has been launched in Germany.

We continue to work with Animal Ethics Pty Ltd to accelerate the global registration of Tri-Solfen. Pressure from consumers to improve farm animal welfare continues to increase, strengthening anticipated demand for this unique product.

IT
The Oracle ERP programme has progressed well with final testing almost complete. We have high confidence that go live will be implemented prior to the end of the current financial year.

Manufacturing and Supply Chain
Progress has been made on our five year plan to rationalise and improve efficiency within our manufacturing sites. Good progress has been made in the Period as we continue to reduce our low value third party business and drive ongoing efficiencies within our key sites. The cost associated with this footprint reorganisation of £0.4 million is included within non-underlying expenses.

People

We have created a new Senior Executive Team role and subsequently employed Andrea Dodds as Global Marketing Director. Andrea joins us having held numerous international senior roles with Colgate Palmolive. An experienced Supply Chain Director has been appointed to manage our increasingly complex network of suppliers and we have strengthened the HR team with new appointments within our Manufacturing Group and in Mexico.

Risks and Uncertainties

The Group, like every business, faces risks and uncertainties in both its day-to-day operations and through events relating to the achievement of its strategic objectives. The Board is accountable for risk management and regularly reviews and monitors the key business risks. The Board does not consider that the principal risks and uncertainties have changed since the publication of the Group's 2017 Annual Report and Accounts. The Group's principal risks and their mitigation are described on pages 56 to 61 of the 2017 Annual Report, a copy of which is available at www.dechra.com.

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

Competitive Environment

The environment within which the Group operates remains competitive and the launch of alternative products in our key therapeutic sectors is a key risk. Competition from US distributors' private label products has increased and we continue to experience direct competition on a number of products in our European portfolio.

We continue to mitigate these risks by closely monitoring the market and investing in lifecycle management strategies for our key products.

Customer and Marketplace Changes

There has been continuing expansion of veterinary buying groups and corporate customers in Europe and North America. These customers present opportunities to grow our revenues and sales volumes but they may also result in reduced margins due to corporate discounts.

We mitigate these risks by managing our corporate customer relationships with dedicated key account managers, review and approval of corporate pricing and discounting policies, and ongoing monitoring of our European pricing policies to ensure equitable pricing for each customer group.

Reduction in Antibiotic Use

There is a continued pressure on reducing antibiotic use in food producing animals due to concerns about antibiotic resistance in Europe and some of our International markets and this trend is expected to continue.

Our dedicated FAP business unit has delivered an increase in FAP revenue of 3.7% at CER in the first half of the year, despite the ongoing decline in the market for antibiotics. Our Croatian vaccine business also mitigates this risk by increasing our presence in the important vaccines segment and broadening our FAP portfolio.

Supply Chain Relationships

Reliance on third party suppliers for a number of key raw materials and finished products remains a risk. We mitigate this risk by maintaining buffer stocks, dual sourcing arrangements for key products, and ongoing performance monitoring of our key suppliers. We have implemented a global sales and operations planning process to deliver improved supply chain performance, and continue to refine and improve this process. We have also appointed an experienced Supply Chain Director to manage our increasingly complex network of suppliers to ensure better supply continuity.

Currency Sensitivity

We are an international business that trades in many currencies and are therefore exposed to volatility in exchange rates. The Euro and US dollar are two of the major currencies in which we trade and given the current global political and economic environment, we expect continued currency volatility that could impact our results. In the first six months of the year we made foreign exchange transactional losses of £0.5 million on trading activities (compared to a gain of £0.8 million in the previous period).

Our external debt is denominated in both Euros and US dollars. The foreign exchange risk associated with this is mitigated through net investment hedging or similar instruments which result in the foreign exchange impact being included in other comprehensive income.

Outlook

Dechra has performed well in the Period with solid revenue growth in EU pharmaceuticals and strong revenue growth in NA Pharmaceuticals from the existing business. This has been delivered through the consistent application of our successful strategy, converting pipeline opportunities, leveraging our strong portfolio, and expanding our geographic presence. The acquisitions of AST Farma, Le Vet and RxVet will supplement our opportunities further.

Current trading continues in line with management expectations and the initial phase of integration of the AST Farma/Le Vet acquisition is progressing well. The Board remains confident that we can continue to implement our strategy and meet our expectations for the current financial year, and deliver further growth in the future.

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

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and ASB's 2007 statement Half-Yearly Report;
- the interim management report (this comprises the Half-Yearly Financial Report) includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By Order of the Board.

Ian Page
Chief Executive Officer
26 February 2018

Richard Cotton
Chief Financial Officer

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

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

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

Stock Code: Full Listing (Pharmaceuticals): DPH.

Condensed Consolidated Income Statement
for the six months ended 31 December 2017

	Note	**Six months ended 31.12.17** Underlying £000	Non-underlying items* (notes 4 & 8) £000	Total £000	Restated Six months ended 31.12.16 Underlying £000	Non-underlying items* (notes 4 & 8) £000	Total £000	Year ended 30.06.17 Underlying £000	Non-underlying items* (notes 4 & 8) £000	Total £000
Revenue	2	**194,136**	**–**	**194,136**	172,564	–	172,564	359,275	–	359,275
Cost of sales		**(85,936)**	**–**	**(85,936)**	(80,353)	(4,004)	(84,357)	(163,335)	(4,225)	(167,560)
Gross profit		**108,200**	**–**	**108,200**	92,211	(4,004)	88,207	195,940	(4,225)	191,715
Selling, general and administrative expenses		**(52,406)**	**(16,962)**	**(69,368)**	(46,955)	(14,451)	(61,406)	(99,613)	(32,469)	(132,082)
Research and development expenses		**(8,432)**	**(4,109)**	**(12,541)**	(6,631)	(6,121)	(12,752)	(14,978)	(11,441)	(26,419)
Operating profit	2	**47,362**	**(21,071)**	**26,291**	38,625	(24,576)	14,049	81,349	(48,135)	33,214
Share of result from joint venture		**(59)**	**(117)**	**(176)**	–	–	–	(101)	(58)	(159)
Finance income	3	**106**	**–**	**106**	985	–	985	805	–	805
Finance expense	4	**(3,147)**	**(4,090)**	**(7,237)**	(2,102)	(180)	(2,282)	(5,056)	(242)	(5,298)
Profit before taxation	2	**44,262**	**(25,278)**	**18,984**	37,508	(24,756)	12,752	76,997	(44,435)	28,562
Income taxes	5	**(9,074)**	**16,952**	**7,878**	(8,315)	5,529	(2,786)	(16,865)	14,413	(2,452)
Profit for the period		**35,188**	**(8,326)**	**26,862**	29,193	(19,227)	9,966	60,132	(34,022)	26,110
Attributable to:										
Owners of the parent		**35,206**	**(8,326)**	**26,880**	29,172	(19,224)	9,948	60,127	(34,022)	26,105
Non-controlling interests		**(18)**	**–**	**(18)**	21	(3)	18	5	–	5
		35,188	**(8,326)**	**26,862**	29,193	(19,227)	9,966	60,132	(34,022)	26,110
Earnings per share										
Basic	7			**28.80p**			10.72p			28.09p
Diluted	7			**28.69p**			10.66p			27.93p
Dividend per share (interim and final)	6			**7.33p**			6.11p			21.44p

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

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 31 December 2017

	Six months ended		Year ended
		Restated	
	31.12.17	31.12.16	30.06.17
	£000	£000	£000
Profit for the period	**26,862**	9,966	26,110
Other comprehensive income:			
Items that will not be subsequently recycled to the profit or loss:			
Remeasurement of defined benefit pension scheme	**131**	268	2,074
Income tax relating to components of other comprehensive income	**(34)**	(55)	(535)
	97	213	1,539
Items that may be subsequently recycled to the profit or loss:			
Cash flow hedges recycled to income statement	–	18	15
Recycle of profit/(losses) arising on available for sale financial assets	–	(172)	343
Foreign currency translation differences for foreign operations	**(1,869)**	9,599	12,877
Income tax relating to components of other comprehensive income	–	27	–
	(1,869)	9,472	13,235
Total comprehensive income for the period	**25,090**	19,651	40,884
Attributable to:			
Owners of the parent	**25,100**	19,573	40,719
Non-controlling interests	**(10)**	78	165
	25,090	19,651	40,884

Condensed Consolidated Statement of Financial Position
as at 31 December 2017

ASSETS	Note	**As at 31.12.17 £000**	Restated As at 31.12.16 £000	As at 30.06.17 £000
Non-current assets				
Intangible assets		**372,107**	389,961	396,262
Property, plant and equipment		**44,478**	44,172	45,197
Investments		**10,684**	–	10,854
Deferred tax assets		**749**	432	780
Total non-current assets		**428,018**	434,565	453,093
Current assets				
Inventories		**64,274**	52,038	56,507
Trade and other receivables		**68,126**	71,667	67,269
Cash and cash equivalents	9	**75,816**	49,179	61,200
Total current assets		**208,216**	172,884	184,976
Total assets		**636,234**	607,449	638,069
LIABILITIES				
Current liabilities				
Borrowings	9	**(1,168)**	–	(973)
Trade and other payables		**(63,055)**	(61,482)	(61,309)
Deferred and contingent consideration		**(1,290)**	(824)	(1,617)
Current tax liabilities		**(4,585)**	(5,023)	(2,512)
Total current liabilities		**(70,098)**	(67,329)	(66,411)
Non-current liabilities				
Borrowings	9	**(173,361)**	(187,201)	(180,186)
Deferred and contingent consideration		**(36,917)**	(3,226)	(33,373)
Employee benefit obligations		**(3,373)**	(4,150)	(3,009)
Provisions		**(3,346)**	(3,886)	(3,180)
Deferred tax liabilities		**(33,847)**	(56,808)	(49,273)
Total non-current liabilities		**(250,844)**	(255,271)	(269,021)
Total liabilities		**(320,942)**	(322,600)	(335,432)
Net assets		**315,292**	284,849	302,637
EQUITY				
Issued share capital		**935**	930	932
Share premium account		**174,084**	172,726	173,376
Own shares		**(667)**	(21)	(667)
Foreign currency translation reserve		**16,364**	15,063	18,241
Merger reserve		**1,770**	1,770	1,770
Retained earnings		**121,253**	92,905	107,422
Total equity attributable to equity holders of the parent		**313,739**	283,373	301,074
Non-controlling interests		**1,553**	1,476	1,563
Total equity		**315,292**	284,849	302,637

Condensed Consolidated Statement of Changes in Shareholders’ Equity
for the six months ended 31 December 2017

	Attributable to owners of the parent									
	Issued share capital £000	Share premium account £000	Own shares £000	Hedging reserve £000	Foreign currency translation reserve £000	Merger reserve £000	Retained earnings £000	**Total £000**	Non-controlling interests £000	**Total equity £000**
Six months ended 31 December 2016										
At 1 July 2016	927	172,451	(21)	(15)	5,524	1,770	93,995	**274,631**	1,981	**276,612**
Profit for the period	–	–	–	–	–	–	9,948	**9,948**	18	**9,966**
Recycle of losses arising on available for sale financial assets	–	–	–	–	–	–	(142)	**(142)**	–	**(142)**
Foreign currency translation differences for foreign operations	–	–	–	–	9,539	–	–	**9,539**	60	**9,599**
Remeasurement of defined benefit pension scheme, net of tax	–	–	–	–	–	–	213	**213**	–	**213**
Cash flow hedges recycled to income statement, net of tax	–	–	–	15	–	–	–	**15**	–	**15**
Total comprehensive income for the period	–	–	–	15	9,539	–	10,019	**19,573**	78	**19,651**
Transactions with owners										
Dividends paid	–	–	–	–	–	–	(11,979)	**(11,979)**	–	**(11,979)**
Share-based payments	–	–	–	–	–	–	870	**870**	–	**870**
Shares issued	3	275	–	–	–	–	–	**278**	–	**278**
Acquisition of non-controlling interest	–	–	–	–	–	–	–	**–**	(583)	**(583)**
	3	275	–	–	–	–	(11,109)	**(10,831)**	(583)	**(11,414)**
At 31 December 2016 (Restated)	930	172,726	(21)	–	15,063	1,770	92,905	**283,373**	1,476	**284,849**
Year ended 30 June 2017										
At 1 July 2016	927	172,451	(21)	(15)	5,524	1,770	93,995	**274,631**	1,981	**276,612**
Profit for the period	–	–	–	–	–	–	26,105	**26,105**	5	**26,110**
Recycle of losses arising on available for sale financial assets	–	–	–	–	–	–	343	**343**	–	**343**
Foreign currency translation differences for foreign operations, net of tax	–	–	–	–	12,717	–	–	**12,717**	160	**12,877**
Remeasurement of defined benefit pension scheme, net of tax	–	–	–	–	–	–	1,539	**1,539**	–	**1,539**
Cash flow hedges recycled to income statement, net of tax	–	–	–	15	–	–	–	**15**	–	**15**
Total comprehensive income	–	–	–	15	12,717	–	27,987	**40,719**	165	**40,884**
Transactions with owners										
Dividends paid	–	–	–	–	–	–	(17,664)	**(17,664)**	–	**(17,664)**
Share-based payments	–	–	–	–	–	–	3,104	**3,104**	–	**3,104**
Shares issued	5	925	–	–	–	–	–	**930**	–	**930**
Acquisition of non-controlling interest	–	–	–	–	–	–	–	**–**	(583)	**(583)**
Own shares purchased	–	–	(646)	–	–	–	–	**(646)**	–	**(646)**
Total contributions by and distribution to owners	5	925	(646)	–	–	–	(14,560)	**(14,276)**	(583)	**(14,859)**
At 30 June 2017	932	173,376	(667)	–	18,241	1,770	107,422	**301,074**	1,563	**302,637**
Six months ended 31 December 2017										
At 1 July 2017	**932**	**173,376**	**(667)**	**–**	**18,241**	**1,770**	**107,422**	**301,074**	**1,563**	**302,637**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**26,880**	**26,880**	**(18)**	**26,862**
Foreign currency translation differences for foreign operations	**–**	**–**	**–**	**–**	**(1,877)**	**–**	**–**	**(1,877)**	**8**	**(1,869)**
Remeasurement of defined benefit pension scheme, net of tax	**–**	**–**	**–**	**–**	**–**	**–**	**97**	**97**	**–**	**97**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**(1,877)**	**–**	**26,977**	**25,100**	**(10)**	**25,090**
Transactions with owners										
Dividends paid	–	**–**	**–**	**–**	**–**	**–**	**(14,314)**	**(14,314)**	**–**	**(14,314)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**1,168**	**1,168**	**–**	**1,168**
Shares issued	**3**	**708**	**–**	**–**	**–**	**–**	**–**	**711**	**–**	**711**
Total contributions by and distribution to owners	**3**	**708**	**–**	**–**	**–**	**–**	**(13,146)**	**(12,435)**	**–**	**(12,435)**
At 31 December 2017	**935**	**174,084**	**(667)**	**–**	**16,364**	**1,770**	**121,253**	**313,739**	**1,553**	**315,292**

Condensed Consolidated Statement of Cash Flows

for the six months ended 31 December 2017

	Note	Six months ended 31.12.17 £000	Six months ended Restated 31.12.16 £000	Year ended 30.06.17 £000
Cash flows from operating activities				
Operating Profit		**26,291**	14,049	33,214
Non-underlying items		**21,071**	24,576	48,135
Underlying operating profit		**47,362**	38,625	81,349
Adjustments for:				
Depreciation		**2,417**	2,435	4,913
Amortisation and impairment		**1,223**	538	1,942
Loss on disposal of intangible assets		**–**	332	309
(Profit)/Loss on disposal of tangible assets		**(85)**	59	212
Equity-settled share-based payments expense		**1,168**	870	2,268
Underlying operating cash flow before changes in working capital		**52,085**	42,859	90,993
(Increase)/decrease in inventories		**(8,037)**	3,855	(1,552)
Decrease/(increase) in trade and other receivables		**132**	1,615	6,360
Increase/(decrease) in trade and other payables		**1,531**	2,119	2,122
Cash generated from operating activities before interest, taxation and non-underlying items		**45,711**	50,448	97,923
Cash outflows in respect of non-underlying items		**(156)**	(2,552)	(3,653)
Cash generated from operating activities before interest and taxation		**45,555**	47,896	94,270
Interest paid		**(2,344)**	(2,075)	(4,836)
Income taxes paid		**(4,310)**	(4,492)	(12,008)
Net cash inflow from operating activities		**38,901**	41,329	77,426
Cash flows from investing activities				
Interest received		**–**	13	32
Proceeds of sale of property, plant and equipment		**429**	–	–
Acquisition of subsidiaries (net of cash acquired)	10	**(1,079)**	(34,491)	(34,966)
Acquisition of non controlling interests		**(1,791)**	(583)	(583)
Purchase of other intangible non-current assets		**(2,399)**	(1,449)	(5,266)
Capitalised development expenditure		**(112)**	(346)	(1,258)
Purchase of property, plant and equipment		**(2,401)**	(1,589)	(4,221)
Acquisition of investments in associates		**–**	–	(11,013)
Net cash inflow/(outflow) from investing activities		**(7,353)**	(38,445)	(57,275)
Cash flows from financing activities				
Proceeds from the issue of share capital		**711**	278	930
Own shares purchased		**–**	–	(646)
New borrowings		**–**	25,000	25,000
Expense of raising new borrowing facilities		**(2,026)**	(150)	(150)
Repayment of borrowings		**(386)**	(5,861)	(5,879)
Dividends paid		**(14,314)**	(11,979)	(17,664)
Net cash inflow/(outflow) from financing activities		**(16,015)**	7,288	1,591
Net increase/(decrease) in cash and cash equivalents		**15,533**	10,172	21,742
Cash and cash equivalents at start of period		**61,200**	39,142	39,142
Exchange differences on cash and cash equivalents		**(917)**	(135)	316
Cash and cash equivalents at end of period		**75,816**	49,179	61,200
Reconciliation of net cash flow to movement in net (borrowings)/cash				
Net increase/(decrease) in cash and cash equivalents		**15,533**	10,172	21,742
Repayment of borrowings		**386**	5,861	5,879
Expenses of raising new borrowings		**2,026**	150	150
New borrowings		**–**	(25,000)	(25,000)
Exchange differences on cash and cash equivalents		**(917)**	(135)	316
Retranslation of foreign borrowings		**4,749**	(12,384)	(6,282)
Other non-cash changes		**(531)**	(63)	(141)
Movement in net (borrowings)/cash in the period		**21,246**	(21,399)	(3,336)
Net (borrowings)/cash at start of period		**(119,959)**	(116,623)	(116,623)
Net (borrowings)/cash at end of period	9	**(98,713)**	(138,022)	(119,959)

Notes to the Financial Statements
for the six months ended 31 December 2017

1 Basis of Preparation and Principal Accounting Policies

Dechra Pharmaceuticals PLC (Dechra or the Company) is a company registered and domiciled in the United Kingdom. The condensed set of financial statements as at, and for, the six months ended 31 December 2017 comprises the Company and its subsidiaries (together referred to as the Group).

This interim financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. However the external auditor, PricewaterhouseCoopers LLP has carried out a review of the condensed set of financial statements and their report in respect of the six months to 31 December 2017 is set out in the Independent Review Report. The Group financial statements as at, and for, the year ended 30 June 2017 prepared in accordance with IFRS as adopted by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under EU adopted IFRS, are available upon request from the Company's registered office at 24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA.

The prior year comparatives are derived from audited financial information for Dechra Pharmaceuticals PLC as set out in the Annual Report for the year ended 30 June 2017 and the unaudited financial information in the Half-Yearly Financial Report for the six months ended 31 December 2016. The comparative figures for the financial year ended 30 June 2017 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's external auditors, PricewaterhouseCoopers, and delivered to the Registrar of Companies. The report of the external auditor (i) was unqualified, (ii) did not include a reference to any matters to which the external auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The condensed set of financial statements for the six months ended 31 December 2017 are unaudited but have been reviewed by the external auditor.

In the preparation of the financial statements, comparative amounts relating to the six months ended 31 December 2016 have been restated to reflect the measurement period adjustments made on the provisional Putney acquisition accounting adjustments. Measurement period adjustments have been made to goodwill, deferred tax and payables. These are detailed in note 10.

In addition to this, there was an accounting policy change in the financial year ended 30 June 2017 in relation to the amortisation of the pharmacological process (see overleaf). An additional amortisation charge of £3.5 million has therefore been made at December 2016 to reflect this change, reducing intangibles. A corresponding tax credit of £0.8 million has been recognised in relation to the unwinding of deferred tax.

Statement of Compliance

The condensed set of financial statements included in this Half-Yearly Financial Report has been prepared in accordance with IAS 34 '*Interim Financial Reporting*' as adopted by the EU. The condensed set of financial statements does not include all of the information required for the full annual financial statements, and should be read in conjunction with the Group financial statements for the year ended 30 June 2017.

This condensed set of financial statements was approved by the Board of Directors on 26 February 2018.

Significant Accounting Policies

As required by the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's consolidated financial statements for the year ended 30 June 2017 as described in pages 120 to 127 of the Annual Report, except where new or revised accounting standards have been applied.

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

Other amendments to IFRSs effective for the financial year ending June 2018 are not expected to have a material impact on the Group.

Estimates and Judgements

The preparation of a condensed set of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. In accounting for business combinations, the identifiable assets, liabilities and contingent liabilities acquired have to be measured at their fair values. In particular, some judgement is required in estimating the fair value of inventory with reference to current selling prices and costs to sell, and judgement in estimating the valuation of intangible assets and other identifiable intangible assets. Details concerning acquisitions and business combinations are outlined in note 10. Actual results may differ from these estimates.

1 Basis of Preparation and Principal Accounting Policies continued

New and Revised Standards

The IASB has issued a number of new standards which are not yet effective. They do not have any effect on the financial information contained within this report and will be more fully discussed in our Annual Report for the year ended 30 June 2018.

IFRS 9 – Financial Instruments

IFRS 9 is effective for periods beginning on or after 1 January 2018. It will therefore be effective in the consolidated financial statements of the Group for the year ended 30 June 2019.

IFRS 9 replaces IAS 39 – Financial Instruments: recognition and measurement. In doing so, it addresses the classification, measurement and recognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

A detailed assessment of the impact of the new standard is underway. It is currently not practicable to quantify the effect.

IFRS 15 – Revenue from contracts with customers

IFRS 15 is effective for periods beginning on or after 1 January 2018. It will therefore be effective in the consolidated financial statements of the Group for the year ended 30 June 2019.

IFRS 15 replaces IAS 18 – Revenue and IAS 11 – Construction Contracts in order to provide a single, comprehensive five step model to be applied to all sales contracts. The key principle of the standard is that revenue is recognised when control of the goods or services passes to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for the goods or services.

Our assessment of the impact of the standard on the Groups financial statements remains ongoing. At this stage, it is estimated that the total revenue recognised in any financial year would not significantly change under IFRS 15, compared to current accounting standards.

Going Concern

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

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

2 Operating Segments

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

The European Pharmaceuticals Segment comprises Dechra Veterinary Products EU, Dechra Veterinary Products International, Genera d.d. and Dechra Pharmaceuticals Manufacturing. This Segment operates internationally and manufactures and markets Companion Animal, Equine, Food producing Animal Products and Nutrition. This Segment also includes third party manufacturing sales and other non-core businesses.

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

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

Notes to the Financial Statements continued
for the six months ended 31 December 2017

2 Operating Segments continued

	Six months ended 31.12.17 £000	Six months ended Restated 31.12.16 £000	Year ended 30.06.17 £000
Revenue by segment			
European Pharmaceuticals	**120,928**	110,691	226,930
North America Pharmaceuticals	**73,208**	61,873	132,345
	194,136	172,564	359,275
Operating profit/(loss) by segment			
European Pharmaceuticals	**34,195**	30,802	60,706
North America Pharmaceuticals	**25,549**	18,103	43,195
Pharmaceuticals Research and Development	**(8,432)**	(6,631)	(14,978)
Segment operating profit	**51,312**	42,274	88,923
Corporate and other unallocated costs	**(3,950)**	(3,649)	(7,574)
Underlying operating profit	**47,362**	38,625	81,349
Amortisation of acquired intangibles	**(19,098)**	(18,520)	(40,444)
Impairment of investments	**–**	–	(602)
Fair value uplift of inventory	**–**	(4,004)	(4,225)
Rationalisation costs of acquired entities	**–**	(110)	(809)
Rationalisation of manufacturing footprint reorganisation	**(448)**	–	–
Expenses relating to acquisition activities	**(1,525)**	(1,942)	(2,055)
Operating profit	**26,291**	14,049	33,214
Share of result from joint ventures	**(176)**	–	(159)
Finance income	**106**	985	805
Finance expense	**(7,237)**	(2,282)	(5,298)
Profit before taxation	**18,984**	12,752	28,562
Revenue by product category			
CAP	**124,725**	104,916	223,826
Equine	**16,379**	13,734	27,246
FAP	**24,153**	22,458	47,315
Nutrition	**14,774**	13,851	27,457
Other	**14,105**	17,605	33,431
	194,136	172,564	359,275

3 Finance Income

	Six months ended 31.12.17 £000	Six months ended 31.12.16 £000	Year ended 30.06.17 £000
Finance income arising from:			
— Cash and cash equivalents	**106**	146	204
— Foreign exchange gains	**–**	839	601
	106	985	805

4 Finance Expense

Underlying	Six months ended 31.12.17 £000	31.12.16 £000	Year ended 30.06.17 £000
Finance expense arising from:			
— Financial liabilities at amortised costs	**2,637**	2,082	5,016
— Net interest on defined benefit obligations	**19**	20	40
— Foreign exchange losses	**491**	–	–
Underlying finance expense	**3,147**	2,102	5,056

Non-underlying	Six months ended 31.12.17 £000	31.12.16 £000	Year ended 30.06.17 £000
Finance expense arising from:			
— Fair value and other movements on deferred and contingent consideration	**3,738**	180	242
— Loss on extinguishment of debt	**352**	–	–
Non-underlying interest items	**4,090**	180	242
Total finance expense	**7,237**	2,282	5,298

Fair value and other movements on deferred and contingent consideration relates to foreign exchange and unwind of the discount associated with deferred and contingent consideration. The deferred and contingent consideration balances relate to the Animal Ethics licensing agreement, deferred consideration relating to the Brovel acquisition and contingent consideration associated with the *Phycox* acquisition.

5 Income Tax Expense

The tax charge for the six months ended 31 Dec 2017 has been calculated based on (i) the estimated effective rate for the year ending 30 June 2018, plus (ii) the inclusion of an exceptional tax credit of £10.8m which has been recognised in full at 31 December 2017. This exceptional tax credit arises as a consequence of the reduction in the USA federal tax rate (from 35% to 21%), enacted by the Tax Cuts and Jobs Act (TCJA). The total effective tax rate is (41.5%) (six months ended 31 December 2016: 21.9%, year ended 30 June 2017: 8.6%), the underlying effective tax rate is 20.5% (six months ended 31 December 2016: 22.2%). This includes non-underlying items as defined in the Condensed Consolidated Income Statement relating to the amortisation of intangible assets. The TCJA is complex and wide ranging and whilst every attempt has been made to reflect the impact in these financial statements, the impact has been estimated and maybe further refined prior to 30 June 2018.

6 Dividends

The final dividend for the year ended 30 June 2017 of 15.33 pence per share costing £14,314,000 has been paid in the period.

The Directors have declared an interim dividend of 7.33 pence per share (2016: 6.11 pence) costing £7,536,000 (2016: £5,685,000). It is payable on 6 April 2018 to shareholders whose names are on the Register of Members at close of business on 9 March 2018. The ordinary shares will become ex-dividend on 8 March 2018.

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 2018.

Notes to the Financial Statements continued
for the six months ended 31 December 2017

7 Earnings per Share

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

	Six months ended		Year ended
		Restated	
	31.12.17	31.12.16	30.06.17
	Pence	Pence	Pence
Basic earnings per share			
— Underlying*	**37.72**	31.43	64.68
— Basic	**28.80**	10.72	28.09
Diluted earnings per share			
— Underlying*	**37.58**	31.25	64.33
— Diluted	**28.69**	10.66	27.93

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

	£000	£000	£000
Earnings attributable to owners of the parent for underlying basic and underlying diluted earnings per share	**35,206**	29,172	60,132
Earnings attributable to owners of the parent for basic and diluted earnings per share	**26,880**	9,948	26,110

	No.	No.	No.
Weighted average number of ordinary shares for basic earnings per share	**93,326,118**	92,818,591	92,962,967
Impact of share options	**357,372**	523,357	516,032
Weighted average number of ordinary shares for diluted earnings per share	**93,683,490**	93,341,948	93,478,999

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

8 Underlying Operating Profit and Profit before Taxation

	Six months ended		Year ended
		Restated	
	31.12.17	31.12.16	30.06.17
	£000	£000	£000
Operating profit			
Underlying operating profit is calculated as follows:			
Operating profit	**26,291**	14,049	33,214
Amortisation of intangible assets acquired as a result of business combinations	**19,098**	18,520	40,444
Fair value uplift of inventory acquired through business combinations	**–**	4,004	4,225
Impairment of investments	**–**	–	602
Rationalisation costs of acquired entities	**–**	110	809
Rationalisation costs of manufacturing footprint reorganisation	**448**	–	–
Expenses relating to acquisition activities	**1,525**	1,942	2,055
	47,362	38,625	81,349
Profit before taxation			
Underlying profit before taxation is calculated as follows:			
Profit before taxation	**18,984**	12,752	28,562
Amortisation of intangible assets acquired as a result of business combinations	**19,215**	18,520	40,502
Fair value uplift of inventory acquired through business combinations	**–**	4,004	4,225
Rationalisation costs of acquired entities	**–**	110	809
Rationalisation costs of manufacturing footprint reorganisation	**448**	–	–
Expenses relating to acquisition expenses	**1,525**	1,942	2,055
Impairment of investments	**–**	–	602
Fair value and other movements on deferred and contingent consideration	**3,738**	180	242
Loss on extinguishment of debt	**352**	–	–
	44,262	37,508	76,997
Impact of non-underlying items on income tax	**16,952**	5,529	14,413

8 Underlying Operating Profit and Profit before Taxation continued

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

The following are excluded in determining underlying operating profit:

- Amortisation of acquired intangibles reflects the amortisation of the fair values of future cash flows recognised on acquisition in relation to the identifiable intangible assets acquired.
- Expenses relating to acquisition activities include legal and professional fees incurred during acquisitions, these relate to the acquisition of RxVet, AST Farma and Le Vet.
- The fair value uplift of inventory acquired through the business combinations is recognised in accordance with IFRS 3 'Business Combinations' to record the inventory acquired at fair value and its subsequent release into the income statement.
- Rationalisation costs relate to the integration and restructuring programmes implemented subsequent to acquisitions or the reorganisation of internal functions.
- Impairment of investments relates to the impairment of the investment in Jaguar Health Inc.

9 Analysis of Net (Borrowings)/Cash

On 25 July 2017, the Group signed a new credit agreement financing the £205.0 million Revolving Credit Facility (RCF). The new committed facilities are a new five year multi-currency RCF with two one year extension periods for £235.0 million. The RCF has an Accordian facility of a further £125.0 million.

	As at 31.12.17 £000	As at 31.12.16 £000	As at 30.06.17 £000
Analysis of net debt			
Cash and cash equivalents	**75,816**	49,179	61,200
Borrowings	**(1,168)**	–	(973)
Borrowing greater than 1 year	**(173,361)**	(187,201)	(180,186)
	(98,713)	(138,022)	(119,959)

Notes to the Financial Statements continued
for the six months ended 31 December 2017

10 Acquisitions

Acquisition of RxVet

On 13 December 2017, Dechra acquired 100% of the share capital of RxVet Limited (RxVet), a veterinary pharmaceuticals sales and distribution company based in New Zealand. The Group paid £0.3 million (NZ $0.6 million) consideration in cash, with a further NZ $40,000 deferred payment.

	Provisional fair value £000
Recognised amounts of identifiable assets acquired	
Property, plant and equipment	**13**
Inventory	**313**
Trade and other receivables	**152**
Trade and other payables	**(156)**
Deferred taxation	**(46)**
Net identifiable assets	**276**
Goodwill	**57**
Total consideration	**333**
Satisfied by:	
Cash	**313**
Deferred consideration	**20**
Total consideration transferred	**333**
Net cash outflow arising on acquisition	
Cash consideration	**333**
Net cash outflow arising on acquisition	**333**

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

The goodwill of £0.1 million arising from the acquisition consists of technical expertise of the assembled workforce, continued geographic expansion into the Australasian market, and future sales growth expected to be achieved. None of the goodwill is expected to be deductible for income tax purposes.

Acquisition related costs (included in operating expenses) amounted to £25,000. RxVet's results are reported within the EU Pharmaceuticals Segment.

RxVet contributed £24,000 revenue and (£5,000) to the Group's pre-tax profit for the period between the date of acquisition and the balance sheet date. If the acquisition of RxVet had been completed on the first date of the financial year, the contribution to Group revenues for the period would have been £430,757 and the Group pre-tax profit would have been £51,126.

Prior Year Acquisitions

In relation to the Putney acquisition, measurement period adjustments were made in the period to June 2017 that were not reflected at December 2016. Measurement period adjustments have therefore been made at December 2016 to reduce intangibles by £4.0 million, increase payables by £0.3 million and to reduce the deferred tax liability by £4.3 million.

Following the acquisition of Apex in October 2016, the disclosure of the final fair values of the assets and liabilities acquired have been included in the financial statements for the year ended 30 June 2017.

11 Foreign Exchange Rates

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

	Average rate for the six months ended		Closing rate at	Closing rate at
	31.12.17	31.12.16	**31.12.17**	31.12.16
Euro	**1.1205**	1.1698	**1.1271**	1.1680
US Dollar	**1.3176**	1.2886	**1.3517**	1.2311
Danish Krone	**8.3371**	8.7054	**8.3912**	8.6830

12 Related Party Transactions

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

13 Subsequent Events

On 13 February 2018, the Group completed the acquisition of AST Farma and Le Vet for a total consideration of €340.0 million on a debt-free cash-free basis. This was funded through a placing with institutional investors of 5,121,952 new ordinary shares of 1 pence each at a price of 2050 pence per share, a drawdown under a new banking facility of €150.0 million and the remaining acquisition consideration is being funded through the issue of 3,670,625 new ordinary shares to the Sellers.

On 5 January 2018, the Group signed a new multi-currency term loan facility for £350.0 million (Term Loan). All parties, terms and conditions are the same as the existing £235.0 million RCF. The maturity date on the Term Loan is 31 December 2020. Arrangement fees of £2.1 million will be capitalised and written off to the income statement over the life of the loan.

On 1 February 2018, the Group completed the buy-out of the minority interest in Genera for HRK 14.8 million. The cash to fund the buy-out of these 82,314 shares was transferred prior to December 2017 and is included in the acquisition of non-controlling interest within the investing section of the cash flow.

Independent Review Report to Dechra Pharmaceuticals PLC

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

Our Conclusion

We have reviewed Dechra Pharmaceuticals PLC's Half-Yearly Financial Report (the Interim Financial Statements) in the Half-Yearly Financial Report 2018 of Dechra Pharmaceuticals PLC for the six month period ended 31 December 2017. Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, '*Interim Financial Reporting*', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What We Have Reviewed

The Interim Financial Statements comprise:

- the Condensed Consolidated Statement of Financial Position as at 31 December 2017;
- the Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income for the period then ended;
- the Condensed Consolidated Statement of Cash Flows for the period then ended;
- the Condensed Consolidated Statement of Changes in Shareholders' Equity for the period then ended; and
- the explanatory notes to the Interim Financial Statements.

The Interim Financial Statements included in the Half-Yearly Financial Report 2018 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the Interim Financial Statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the Interim Financial Statements and the Review

Our Responsibilities and those of the Directors

The Half-Yearly Financial Report, including the Interim Financial Statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half-Yearly Financial Report 2018 in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the Interim Financial Statements in the Half-Yearly Financial Report 2018 based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a Review of Interim Financial Statements Involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, '*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Half-Yearly Financial Report 2018 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Interim Financial Statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham
26 February 2018

Notes:

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

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