Dechra®

Pharmaceuticals PLC

Half-Yearly Financial Report 2011

An International Veterinary Pharmaceutical Business

Welcome to **Dechra**

Our Business

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

Our Strategy

To build a high margin, international veterinary products business

Pages 1 to 5 do not form part of the Half-Yearly Financial Report and as such do not form part of the Auditors Independent Review.

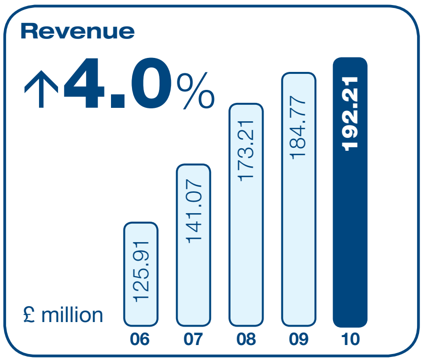
Forward-Looking Statements

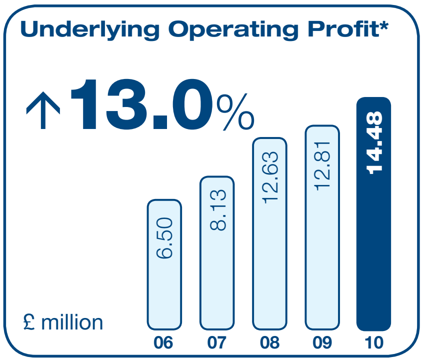
This document contains certain forward-looking statements. The forward-looking statements reflect the knowledge and information available to the Company during the preparation and up to the publication of these Accounts. By their very nature, these statements depend upon circumstances and relate to events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

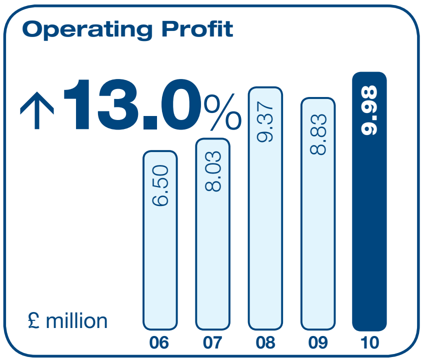
Key Achievements

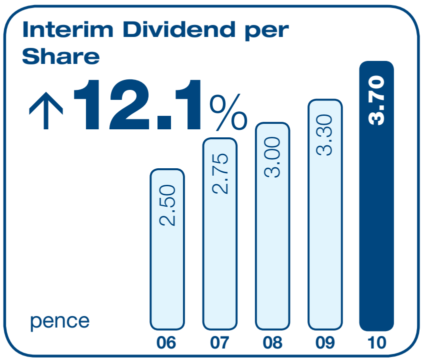
- Strong performance from Dechra Veterinary Products EU and US
- Resilient performance from Services in difficult economic conditions
- Two earnings enhancing acquisitions completed
- £0.4 million increase in product development spend as the pipeline continues to deliver results
- Strong increase in dividend in line with underlying earnings
- Balance sheet remains stong

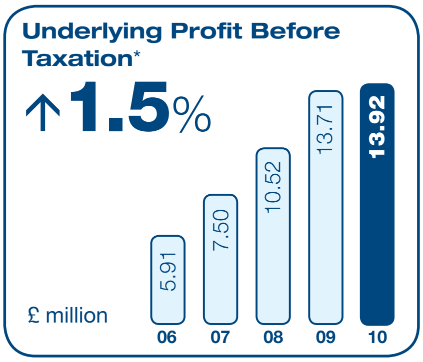
Financial Highlights

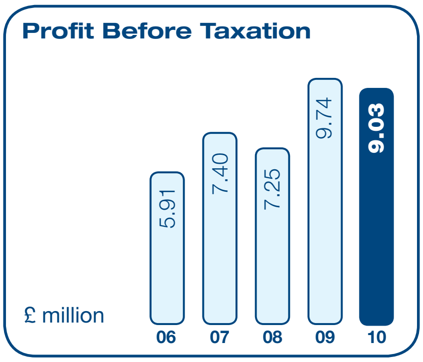


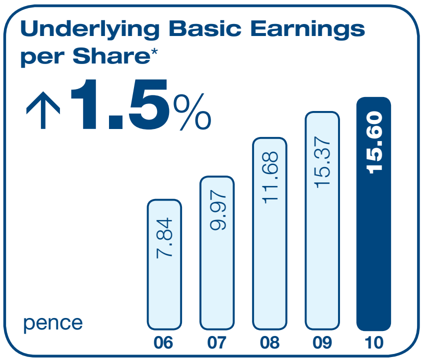


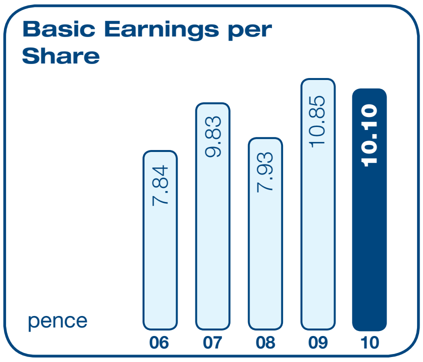












* before amortisation of acquired intangibles, acquisition expenses, rationalisation costs, payments to acquire technology for the research and development programme, impairment charges and loss on extinguishment of debt (see note 8).

Group at a Glance

Pharmaceuticals

European Pharmaceuticals

Dechra Veterinary Products EU ("DVP EU")

Sales and marketing of Dechra's licensed branded pharmaceuticals and specialist pet foods to the veterinary profession in Europe

Dales® Pharmaceuticals ("Dales")

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

European Pharmaceuticals Revenue

up **5.7%**

to £43.7 million (2009: £41.3 million)

US Pharmaceuticals

Dechra Veterinary Products US ("DVP US")

Marketing and sales organisation for a range of Dechra branded endocrine, ophthalmic, dermatological and equine products into North America

US Pharmaceuticals Revenue

up **21.0%**

to £6.5 million (2009: £5.4 million)

Product Development

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

Services

Services

National Veterinary Services ("NVS®")

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

NationWide Laboratories ("NWL")

Multi-disciplined independent commercial veterinary laboratory

Cambridge Specialist Laboratory Services ("CSLS")

Primary and secondary referral specialist veterinary immunoassay laboratory

Services Revenue

up **3.0%**

to £148.6 million (2009: £144.3 million)

Dechra 2010 Acquisitions

Genitrix®

Company Background

Genitrix Limited ("*Genitrix*") was established in 1998 by Howard Wilder, who had previously held senior international veterinary marketing positions within major pharmaceutical companies. Based in Billingshurst, UK, the company became one of the UK's most respected veterinary products companies with a portfolio of 30 products and ultimately trading with over 3,000 UK veterinary practices.

Rationale

The acquisition of *Genitrix* is consistent with our strategy to grow our international veterinary pharmaceutical business. The range of equine and companion animal products enhances and complements our UK product portfolio. The acquisition is expected to be earnings enhancing in the first full year following ownership.

Consideration

Dechra acquired the entire issued share capital of *Genitrix* for an initial cash consideration of £5.6 million. A further £0.8 million is payable upon achievement of specific milestones.

The consideration was funded from Dechra's existing cash resources.

Further opportunities

The recently approved canine epilepsy product, *Libromide*®, provides future growth opportunities through potential Mutual Recognition in Europe. We are also exploring the opportunities to market RIP Fleas and Xeno in our other major European subsidiary markets.

Products

Genitrix's products include innovative therapies to advance veterinary care for companion animals such as dogs and cats, as well as for exotic pets including rabbits, guinea pigs, small rodents, ornamental birds and reptiles. Key products include:

Libromide — a canine epilepsy product;
HY-50 — an equine lameness injection;
RIP Fleas — a household flea product;
Xeno — a spot-on flea product for rabbits and other small exotics.

DermaPet®

Company Background

DermaPet Inc. ("*DermaPet*"), a Florida based business was established in 1991 by a leading veterinary dermatology referral specialist, Dr Steve Melman. Steve developed a range of treatments for dermatological conditions which were previously difficult to treat and thereby established one of the world's most successful and respected brands.

Rationale

Dermatological problems are the most frequently diagnosed and treated conditions in companion animals by veterinarians. The range of innovative products, which have five granted patents and one pending, increases Dechra's US presence and complements its EU range in this key strategic therapeutic category. This acquisition is expected to be materially earnings enhancing in its first full year of ownership. It also further strengthens our position as a leader in the worldwide veterinary dermatological market whilst significantly increasing our presence and scale of operation in the US. The *DermaPet* brand and the high quality natural product line is a perfect fit with our existing dermatological range and accelerates Dechra's strategic objective of becoming a leading supplier of specialist veterinary exclusive products in this key market.

Consideration

The maximum cash consideration for the acquisition is as follows:

- US$43.2 million has been paid on completion;
- Payments of US$1.0 million are due on the second and fourth anniversaries of the completion date;
- US$15.0 million will become payable between the second and sixth anniversaries of completion if *DermaPet* achieves revenues in excess of US$15.0 million in any rolling 12-month period commencing on the first anniversary of completion;
- If revenues on the same criteria exceed US$20.0 million, a further US$5.0 million will become due.

The consideration was funded by refinancing our debt facility.

Further opportunities

The primary objective is to leverage the sales and marketing infrastructure we now have in the US to increase sales of *DermaPet* and our existing products. Furthermore, the key products are currently marketed into the UK and Scandinavia, with our strong sales and marketing teams in these territories we anticipate increasing market penetration. We also intend to launch a number of products in the range into other territories.

Products

DermaPet develops and markets a range of dermatological preparations, including shampoos, conditioners and ear products, for the US and overseas companion animal markets. These veterinary products are marketed and distributed through the same channels as Dechra's current US product portfolio. Key products are *MalAcetic*®, Mal-A-Ket, DermAllay and the Triz range which are used to treat numerous skin and ear conditions in dogs and cats.

"The acquisition of DermaPet is expected to be materially earnings enhancing in its first full year of ownership. It also further strengthens our position as a leader in the worldwide veterinary dermatological market whilst significantly increasing our presence and scale of operation in the US"

Ian Page, Chief Executive

Half-Yearly Financial Report 2011

for the six months ended 31 December 2010

Introduction

In the first half of the financial year Dechra has delivered strong organic growth in its Pharmaceutical segments and has continued to progress its strategy of building a high margin international veterinary products business:

- two earnings enhancing veterinary products businesses have been acquired;
- agreements to extend our geographical reach have been completed; and
- our product development pipeline continues to deliver, new products have been launched, new opportunities identified and existing projects advanced.

Furthermore, against a backdrop of continued economic uncertainty and poor weather related trading in the UK in December, the Services segment has delivered a resilient performance.

Financials

In the six months ended 31 December 2010, Group revenue increased by 4.0% to £192.2 million (2009: £184.8 million). Underlying operating profit increased by 13.0% to £14.5 million (2009: £12.8 million). Underlying profit before taxation was £13.9 million up 1.5% compared to 2009 (£13.7 million) as there was a negative swing of £1.8 million on foreign exchange gains compared to the corresponding period last year. Operating profit after deducting non-underlying items was £10.0 million (2009: £8.8 million). Profit before taxation on the same basis was £9.0 million (2009: £9.7 million).

Underlying basic earnings per share was 15.60 pence (2009: 15.37 pence), the prior year, as described above, benefited from a large foreign exchange gain. Basic earnings per share was 10.10 pence (2009: 10.85 pence).

Research and development expenditure charged to the income statement was £2.5 million, a 19.0% increase over the corresponding period last year. This was in line with management expectations and reflects the continued progress of the product development programme which is outlined later in this report.

Cash flow from operating activities was £0.8 million compared to the £7.4 million achieved in 2009. Cash flow in the first half of the financial year was impacted by:

— an increase in inventory levels of certain product lines; in readiness to commence in-house marketing following the termination of third party agreements and to ensure continuity of supply during the transfer of our diet range to a new manufacturer; and
— extended payment terms offered to certain customers to meet competitive pressure.

We expect the increased inventory levels to reverse in the second half of the financial year.

Net borrowings at 31 December 2010 increased to £49.6 million compared to £6.7 million at 30 June 2010 and £18.5 million at 31 December 2009 due to the £33.0 million cash paid for the two acquisitions completed in this period.

Total available bank facilities are currently £78.0 million of which £10.0 million, currently not utilised, is renewable within the next 12 months.

Interest cover on underlying operating profit was 10.9 times (2009: 10.1 times) excluding gains and losses on foreign exchange movements and derivative contracts.

Dividend

The Board is pleased to declare an interim dividend of 3.7 pence per share (2009: 3.3 pence), an increase of 12.1%. This strong increase is in line with underlying earnings. The interim dividend is covered 4.2 times by underlying profit after taxation (2009: 4.6 times).

The dividend is payable on 7 April 2011 to shareholders on the Register of Members at close of business on 11 March 2011. The ordinary shares will become ex dividend on 9 March 2011.

Review

Acquisitions

DermaPet

DermaPet, a Florida based dermatological business, was acquired in October 2010 for a potential total consideration of US$64.0 million. The acquisition strengthened our position as a leader in the worldwide veterinary dermatological market. As a result of this acquisition we have been able to significantly increase our US sales and marketing capabilities. Our greater overall presence in this market will benefit sales growth of our existing products, future developed products and our enlarged dermatological range. *DermaPet* has now been fully integrated into DVP US and expected sales and cost synergies are beginning to be realised. We are currently in the process of modernising the packaging and presenting it in Dechra livery. The Group is also exploring opportunities to increase sales and geographical coverage of this range within Europe.

Further details can be found on page 5.

Genitrix

In December 2010 we completed the acquisition of *Genitrix* for a potential total consideration of £6.4 million; a privately owned veterinary company with a range of products complementary to Dechra's. The *Genitrix* brands are currently sold exclusively within the United Kingdom. The rationalisation of the business was completed at the end of January 2011 with the closure of their warehouse and office facility. The majority of the *Genitrix* sales team have been appointed within the Dechra Group. Cost synergies are now being realised. The main future strategic objective is to extend the *Genitrix* product range into other EU territories. *Libromide*, a recently approved canine epilepsy product for the UK, has the potential to be taken through Mutual Recognition to gain approval throughout Europe.

Further details can be found on page 4.

Product Development

Solid progress continues to be made on our product development pipeline across all categories of our branded veterinary products; novel pharmaceuticals, generic pharmaceuticals and specialist pet diets. A number of products have been approved within the period: *Vetoryl*® was recently approved in Japan and initial sales have been realised; *Equidone*® has been approved and launched in the United States; and two generics, *Alvegesic Vet*® and *Clavudale*®, have received approval and been launched in the UK.

A number of new pharmaceuticals product opportunities are currently being evaluated, two of which have long-term patent protection. Proof of concept studies for the two patented products are likely to be completed prior to the end of the current financial year.

Development has been completed on a new range of *Specific*® organic pet diets. These diets, which are organic certified, will be launched across Europe at the beginning of March 2011.

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for the six months ended 31 December 2010

European Pharmaceuticals
Dechra Veterinary Products EU
("DVP EU")

DVP EU has continued to outperform most of the markets in which we trade with all major products showing growth. Sales of our own branded veterinary products on a like for like basis increased by 8.0% over the corresponding period last year.

Third party European marketing contracts, which were negotiated prior to the development of our sales and marketing infrastructure, have now been terminated. *Vetoryl* and *Felimazole*® have been marketed in-house through our Nordic subsidiaries from January 2011 and will be sold through our other mainland European subsidiaries from July 2011. We will also commence the in-house marketing of *Canaural*®, *Fuciderm*® Gel and *Fucithalmic*® Vet into Germany and Belgium. In Germany these products will be distributed through our existing partner, Selectavet. In Belgium we have appointed a new manager and have restructured our Dutch business to create a Benelux territory.

Following the closure last year of our pre-wholesale warehouse in Shrewsbury, England, we have relocated our UK sales, marketing, technical and regulatory teams to a new single site. This environmentally sensitive office facility provides excellent working conditions for our employees and reflects the growth and development of our pharmaceutical business.

Sales of our specialist pet diet range, *Specific*, continue to outperform the market. The canine diets have all been successfully transferred into a new manufacturer and the feline diet transfer, with a commensurate improvement in quality and palatability, will be completed prior to the end of this financial year. The organic range, outlined in Product Development, will enhance our competitive position following its launch in March 2011.

"Sales of our own branded veterinary products on a like for like basis increased by 8.0% over the corresponding period last year"

Ian Page, Chief Executive

We have completed an agreement to license the formula, brands and technical support of our *Specific* therapeutic diets to a US diet manufacturing and marketing company, iVet Professional Formulas (“iVet”). The products will be manufactured and sold by iVet under the *Specific* brand, utilising our technical capabilities, into the extensive American market. Dechra will receive a royalty on all sales. We have also appointed a marketing partner in South Korea, a fast developing market.

Manufacturing

Overall production at *Dales* increased in the period due to the success of our branded pharmaceuticals. We have successfully transferred manufacturing of *Fuciderm* and are in the process of transferring *Canaural* into *Dales*; these products were previously outsourced. Contract manufacturing, as expected, was lower than last year entirely due to a planned reduction in production for our biggest single contract. New contract manufacturing opportunities have been won, with production commencing in the second half of our financial year.

We have had a response related to a number of control points on the manufacturing process for *Vetoryl* from the FDA following their inspection in September 2010. We have addressed all the points raised and have responded accordingly. We remain confident of ultimately gaining approval to manufacture *Vetoryl* for the US market at *Dales*.

US Pharmaceuticals

Dechra Veterinary Products US

(“DVP US”)

Revenue from US Pharmaceuticals was ahead of the corresponding period last year by 21.0%, with growth being generated from our major products and enhanced by a contribution from *DermaPet* for the last two months of the trading period.

Supply issues, as previously reported, remain with our ophthalmic and otic products; however, progress is being made on the transfer, validation and re-registration of these products into a new facility. We expect this process to be completed in early 2012.

Vetoryl, although increasing in sales, is not yet achieving its full potential. Whilst we have converted over 12,000 veterinary practices to recognise *Vetoryl* as the product of choice to treat Cushing’s Disease, we continue to face issues with under diagnosis and strong competition from compounding of the product by State regulated pharmacies. The under diagnosis of the disease is similar to the situation we encountered after launching the product in Europe; we are now entering the second phase of our marketing programme to educate practices to improve diagnosis of the disease. We have further developed our on-line educational programme and are continuing to hold well attended regional presentations throughout the US. Furthermore, we continue to lobby the FDA and other US regulatory bodies to attain enforcement and control over the illegal manufacturing activities of the compounding pharmacies.

Equidone Gel, the first product we have licensed for horses in the US, has now been launched; a patent extension has been applied for. Our equine sales team has been strengthened to promote *Equidone* and our agency products Irap and Osteokine.

Services

Services revenue, although increasing by 3.0%, was significantly affected by the reduced weather related footfall through veterinary practices in the UK in December 2010. Operating efficiencies were gained in the period with costs being held at last year’s levels. Further savings have also been identified which will be delivered in the second half following the introduction of a new shift system in December 2010. This operational efficiency was offset, as expected, by a very competitive landscape resulting in a profit performance flat compared to the corresponding period last year. Last year’s margin was also flattered by a one off purchasing deal that enhanced product margin that was not repeated this year.

Our Laboratories continued to operate in a very competitive environment. However, following tender, we have successfully retained our largest client for the next two years.

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for the six months ended 31 December 2010

Board Changes
Following ten years of service, Malcolm Diamond MBE retired as Senior Independent Non-Executive Director and Chairman of the Remuneration Committee in November 2010. We would like to thank Malcolm for his valued support and contribution to the business over this period. Dr Chris Richards was appointed as an Independent Non-Executive Director from 1 December 2010. Chris is currently Chairman of Arysta LifeScience Corporation, the world's largest privately owned crop protection company. He brings with him over twenty years of international management experience. Neil Warner has undertaken the role of Senior Independent Non-Executive Director and Bryan Morton has assumed the role of Chairman of the Group's Remuneration Committee.

Outlook
The strong growth in our Pharmaceutical segments underpins the confidence in our strategy of building a high margin veterinary product business. The continuing general economic weakness has resulted in competitive markets, especially for the Group's Services businesses within the United Kingdom, which were also adversely affected by poor weather related trading conditions in December 2010. The second half will benefit from cost synergies from our recent acquisitions and from the additional products created by our pipeline.

The overall economic environment will continue to pose some challenges in the short to medium term. However, we remain confident in our strategy; the Group is well placed to deliver a solid performance through the current conditions and will continue to provide growth in shareholder value.

Principal Risks and Uncertainties

As we have stated in previous reports, the Group, like every business, faces risks and uncertainties in both its day-to-day operations and through events relating to the achievement of its long term strategic objectives. The Board has ultimate responsibility for risk management within the Group and 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 Board has established a rolling strategic road map which will be regularly monitored and reviewed throughout the financial year. This therefore enables the Board to ensure that the risks and uncertainties are considered in line with the ongoing strategy.

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

Risks	Controls
The failure of a major customer or supplier	The business units monitor the financial status of both key customers and suppliers and maintain regular contact with both
Competitor product launched against one of our leading brands	Product improvement plans and marketing strategies are reviewed regularly. Markets and product registrations are closely monitored to identify potential competitors at the earliest opportunity. On becoming aware of any competitor launches the sales and marketing team ensure that they formulate and deliver a technical and commercial defensive marketing strategy
Increasingly competitive market place (resulting in margin pressure)	The slow down in the UK veterinary market coupled with strong competition from international wholesalers is creating margin pressure at *NVS*. The 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
Implementation of new ERP system at *NVS*	The *NVS* ERP project team are working closely with the IT provider to ensure that the project remains on schedule, any issues resulting from testing are addressed promptly and all users are being trained to ensure that the system can be comprehensively used from implementation. The project team has conducted a dry run of cross over from legacy system, load tested the new system and tested all functionality in order to mitigate any issues on implementation. The decision to go live will be determined by the state of readiness of the business so that any operation disruption is kept to a minimum

Michael Redmond
Non-Executive Chairman
22 February 2011

Ian Page
Chief Executive

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

We confirm that to the best of our knowledge:

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

- the interim management report (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
22 February 2011

Simon Evans
Group Finance Director

Condensed Consolidated Income Statement
for the six months ended 31 December 2010

	Note	Six months ended 31.12.10 £'000	Six months ended 31.12.09 £'000	Year ended 30.06.10 £'000
Revenue	2	**192,208**	184,774	369,369
Cost of sales		**(150,115)**	(145,497)	(288,744)
Gross profit		**42,093**	39,277	80,625
Distribution costs		**(8,746)**	(8,144)	(16,542)
Administrative expenses		**(23,367)**	(22,303)	(44,217)
Operating profit	2	**9,980**	8,830	19,866
Underlying operating profit	8	**14,475**	12,805	28,190
Non-underlying items*	8	**(4,495)**	(3,975)	(8,324)
Operating profit		**9,980**	8,830	19,866
Finance income	3	**1,200**	2,765	1,632
Underlying finance expense	4	**(1,760)**	(1,857)	(3,766)
Loss on extinguishment of debt	4	**(391)**	—	—
Finance expense		**(2,151)**	(1,857)	(3,766)
Profit before taxation	2	**9,029**	9,738	17,732
Underlying profit before taxation	8	**13,915**	13,713	26,056
Non-underlying items*	8	**(4,886)**	(3,975)	(8,324)
Profit before taxation		**9,029**	9,738	17,732
Income tax expense	5	**(2,348)**	(2,606)	(4,575)
Profit for the period attributable to equity holders of the parent		**6,681**	7,132	13,157
Underlying profit after taxation		**10,315**	10,098	19,437
Non-underlying items*		**(3,634)**	(2,966)	(6,280)
Profit for the period attributable to equity holders of the parent		**6,681**	7,132	13,157
Earnings per share (pence)				
Basic	7	**10.10p**	10.85p	19.97p
Diluted	7	**10.05p**	10.81p	19.89p
Dividend per share	6	**3.70p**	3.30p	10.50p

* Non-underlying items comprise amortisation of acquired intangibles, acquisition expenses, rationalisation costs, payments to acquire technology for the research and development programme, impairment charges and loss on extinguishment of debt.

Condensed Consolidated Statement of Comprehensive Income
for the six months ended 31 December 2010

	Six months ended		Year ended
	31.12.10	31.12.09	30.06.10
	£'000	£'000	£'000
Profit for the period	**6,681**	7,132	13,157
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges	**383**	191	593
Foreign currency translation differences for foreign operations	**2,338**	2,249	(1,949)
Net loss on hedge of net investment in foreign operations	**–**	(1,300)	(1,300)
Recycled to income statement	**(192)**	(192)	(512)
Income tax relating to components of other comprehensive income	**(107)**	(54)	249
Total comprehensive income for the period attributable to equity holders of the parent	**9,103**	8,026	10,238

Condensed Consolidated Statement of Financial Position

at 31 December 2010

	Note	As at 31.12.10 £'000	As at 31.12.09 £'000	As at 30.06.10 £'000
ASSETS				
Non-current assets				
Intangible assets		**125,873**	90,574	80,371
Property, plant & equipment		**7,714**	8,108	7,673
Total non-current assets		**133,587**	98,682	88,044
Current assets				
Inventories		**42,261**	37,044	34,819
Trade and other receivables		**52,988**	44,428	51,162
Cash and cash equivalents	9	**18,089**	25,000	31,502
Total current assets		**113,338**	106,472	117,483
Total assets	2	**246,925**	205,154	205,527
LIABILITIES				
Current liabilities				
Borrowings	9	**(8,457)**	(23,033)	(20,441)
Trade and other payables		**(70,825)**	(56,771)	(64,495)
Current tax liabilities		**(5,522)**	(5,239)	(4,105)
Total current liabilities		**(84,804)**	(85,043)	(89,041)
Non-current liabilities				
Borrowings	9	**(59,280)**	(20,426)	(17,762)
Deferred tax liabilities		**(11,130)**	(13,890)	(12,496)
Total non-current liabilities		**(70,410)**	(34,316)	(30,258)
Total liabilities		**(155,214)**	(119,359)	(119,299)
Net assets		**91,711**	85,795	86,228
EQUITY				
Issued share capital		**663**	660	661
Share premium account		**63,430**	62,813	63,021
Hedging reserve		**—**	(566)	(276)
Foreign currency translation reserve		**3,486**	5,443	1,340
Merger reserve		**1,770**	1,770	1,770
Retained earnings		**22,362**	15,675	19,712
Total equity attributable to equity holders of the parent		**91,711**	85,795	86,228

Condensed Consolidated Statement of Changes in Shareholders' Equity

for the six months ended 31 December 2010

	Attributable to equity holders of the parent						
	Issued share capital £'000	Share premium account £'000	Hedging reserve £'000	Foreign currency translation reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Six months ended 31 December 2009							
At 1 July 2009	656	62,437	(703)	4,686	1,770	11,840	80,686
Profit for the period	—	—	—	—	—	7,132	7,132
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	137	—	—	—	137
Net loss on hedge of net investment in foreign operations	—	—	—	(1,300)	—	—	(1,300)
Foreign currency translation differences for foreign operations	—	—	—	2,249	—	—	2,249
Recycled to income statement	—	—	—	(192)	—	—	(192)
Total comprehensive income for the period	—	—	137	757	—	7,132	8,026
Transactions with owners							
Dividends paid	—	—	—	—	—	(4,016)	(4,016)
Share-based payments	—	—	—	—	—	719	719
Shares issued	4	376	—	—	—	—	380
At 31 December 2009	660	62,813	(566)	5,443	1,770	15,675	85,795
Year ended 30 June 2010							
At 1 July 2009	656	62,437	(703)	4,686	1,770	11,840	80,686
Profit for the period	—	—	—	—	—	13,157	13,157
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	427	—	—	—	427
Foreign currency translation differences for foreign operations	—	—	—	(2,041)	—	—	(2,041)
Net loss on hedge of net investment in foreign operations	—	—	—	(936)	—	—	(936)
Recycled to income statement, net of tax	—	—	—	(369)	—	—	(369)
Total comprehensive income for the period	—	—	427	(3,346)	—	13,157	10,238
Transactions with owners							
Dividends paid	—	—	—	—	—	(6,195)	(6,195)
Share-based payments	—	—	—	—	—	910	910
Shares issued	5	584	—	—	—	—	589
At 30 June 2010	661	63,021	(276)	1,340	1,770	19,712	86,228
Six months ended 31 December 2010							
At 1 July 2010	661	63,021	(276)	1,340	1,770	19,712	86,228
Profit for the period	—	—	—	—	—	6,681	6,681
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	276	—	—	—	276
Foreign currency translations differences for foreign operations	—	—	—	2,338	—	—	2,338
Recycled to income statement, net of tax	—	—	—	(192)	—	—	(192)
Total comprehensive income for the period	—	—	276	2,146	—	6,681	9,103
Transactions with owners							
Dividends paid	—	—	—	—	—	(4,764)	(4,764)
Share-based payments	—	—	—	—	—	733	733
Shares issued	2	409	—	—	—	—	411
At 31 December 2010	663	63,430	—	3,486	1,770	22,362	91,711

Condensed Consolidated Statement of Cash Flows

for the six months ended 31 December 2010

	Note	Six months ended 31.12.10 £'000	Six months ended 31.12.09 £'000	Year ended 30.06.10 £'000
Cash flows from operating activities				
Profit for the period		**6,681**	7,132	13,157
Adjustments for:				
Depreciation		**717**	764	1,509
Amortisation		**4,585**	4,029	7,908
Loss on sale of property, plant and equipment		**1**	9	—
Finance income	3	**(1,200)**	(2,765)	(1,632)
Finance expense	4	**2,151**	1,857	3,766
Equity-settled share-based payment expenses		**345**	372	817
Income tax expense		**2,348**	2,606	4,575
		15,628	14,004	30,100
Increase in inventories		**(6,619)**	(5,186)	(3,126)
Decrease/(increase) in trade and other receivables		**186**	3,605	(3,833)
(Decrease)/increase in trade and other payables		**(8,353)**	(5,026)	3,521
Cash flow from operating activities before interest and taxation		**842**	7,397	26,662
Interest paid		**(1,638)**	(1,673)	(3,214)
Income taxes paid		**(2,179)**	(3,104)	(6,124)
Net cash (outflow)/inflow from operating activities		**(2,975)**	2,620	17,324
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		**2**	—	—
Interest received		**438**	356	1,006
Acquisition of subsidiaries	10	**(33,047)**	—	—
Purchase of property, plant and equipment		**(619)**	(675)	(1,243)
Capitalised development expenditure		**(424)**	(390)	(955)
Purchase of other intangible non-current assets		**(983)**	(397)	(523)
Net cash outflow from investing activities		**(34,633)**	(1,106)	(1,715)
Cash flows from financing activities				
Proceeds from the issue of share capital		**411**	380	589
New borrowings		**68,000**	—	—
Expenses of raising new borrowings		**(944)**	—	—
Repayment of borrowings		**(37,692)**	(273)	(5,671)
Movement of foreign currency borrowings		**(580)**	456	456
Dividends paid		**(4,764)**	(4,016)	(6,195)
Net cash inflow/(outflow) from financing activities		**24,431**	(3,453)	(10,821)
Net (decrease)/increase in cash and cash equivalents		**(13,177)**	(1,939)	4,788
Cash and cash equivalents at start of period		**31,502**	26,817	26,817
Exchange differences on cash and cash equivalents		**(236)**	122	(103)
Cash and cash equivalents at end of period		**18,089**	25,000	31,502
Reconciliation of net cash flow to movement in net borrowings				
Net (decrease)/increase in cash and cash equivalents		**(13,177)**	(1,939)	4,788
Repayment of borrowings		**37,692**	273	5,671
New borrowings		**(68,000)**	—	—
Arrangement fees and expenses on new borrowings		**944**	—	—
Exchange differences on cash and cash equivalents		**(236)**	122	(103)
Retranslation of foreign borrowings		**390**	(1,252)	(1,230)
Loss on extinguishment of debt		**(391)**	—	—
Other non-cash changes		**(169)**	(136)	(300)
Movement in net borrowings in the period		**(42,947)**	(2,932)	8,826
Net borrowings at start of period		**(6,701)**	(15,527)	(15,527)
Net borrowings at end of period	9	**(49,648)**	(18,459)	(6,701)

Notes to the Financial Statements
for the six months ended 31 December 2010

1. Basis of Preparation and Principal Accounting Policies

Dechra Pharmaceuticals PLC (the "Company") is a company domiciled in the UK. The condensed set of financial statements as at, and for, the six months ended 31 December 2010 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 2010 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 2010 and the unaudited financial information in the Half-Yearly Financial Report for the six months ended 31 December 2009. The comparative figures for the financial year ended 30 June 2010 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's Auditors and delivered to the Registrar of Companies. The report of the Auditors (i) was unqualified, (ii) did not include a reference to any matters to which the Auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

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

The condensed set of financial statements for the six months ended 31 December 2010 are unaudited but have been reviewed by the Auditors. The independent review report is set out on page 27.

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 2010.

This condensed set of financial statements was approved by the Board of Directors on 22 February 2011.

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 2010, 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.

Valuation of Intangible Assets

The Group is required to value intangible assets recognised as a result of business combinations. This requires an estimation of the future cash flows of the cash-generating unit to which they are allocated. Estimating this requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 10.

The other significant judgements made by management in applying the Group's accounting policies and the key sources of uncertainty were the same as those applied to the Group financial statements as at 30 June 2010.

1. Basis of Preparation and Principal Accounting Policies continued

The following standards/revisions to standards and interpretations are not expected to have a material impact on the financial statements of the Group.

Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2)

Amendment to IAS 32 Classification of Rights Issues

IFRIC 19 — Extinguishing Financial Liabilities with Equity Instruments

Improvements to IFRS

— IFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations

— IFRS 8 Operating Segments — Disclosure of information about segment assets

— IAS 1 Presentation of Financial Statements — Current/non-current classification of convertible instruments

— IAS 7 Statement of Cash Flows — Classification of expenditures on unrecognised assets

— IAS 17 Leases — Classification of leases of land and buildings

— IAS 18 Revenue — Determining whether an entity is acting as principal or agent

— IAS 36 Impairment of Assets — Unit of accounting for goodwill impairment test

— IAS 38 Intangible Assets — Measuring the fair value of an intangible asset acquired in a business combination

— IAS 39 Financial Instruments: Recognition and Measurement — Treating loan prepayment penalties as closely related embedded derivatives

— IAS 39 Financial Instruments: Recognition and Measurement — Scope exemption for business combination contracts

— IAS 39 Financial Instruments: Recognition and Measurement — Cash flow hedge accounting

— IFRS 3 Business Combinations — Transitional requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS

— IFRS 3 Business Combinations — Measurement of non-controlling interests

— IFRS 3 Business Combinations — Unreplaced and voluntarily replaced share-based payment awards

Notes to the Financial Statements
for the six months ended 31 December 2010

2. Segmental Analysis

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

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

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

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

The Pharmaceuticals research and development segment includes all of the Group's pharmaceutical research and development activities.

	Six months ended		Year ended
	31.12.10	31.12.09	30.06.10
	£'000	£'000	£'000
Revenue by segment			
Services — total	**148,592**	144,331	285,670
— intersegment	**(102)**	(128)	(195)
European Pharmaceuticals — total	**43,677**	41,313	84,637
— intersegment	**(6,435)**	(6,092)	(11,377)
US Pharmaceuticals	**6,476**	5,350	10,634
	192,208	184,774	369,369
Operating profit/(loss) by segment			
Services	**6,349**	6,473	13,103
European Pharmaceuticals	**10,436**	9,621	21,412
US Pharmaceuticals	**1,846**	309	1,311
Pharmaceuticals research and development	**(2,456)**	(2,064)	(4,666)
Segment operating profit	**16,175**	14,339	31,160
Corporate and other unallocated costs	**(1,700)**	(1,534)	(2,970)
Underlying operating profit	**14,475**	12,805	28,190
Non-underlying items (note 8)	**(4,495)**	(3,975)	(8,324)
Total operating profit	**9,980**	8,830	19,866
Finance income	**1,200**	2,765	1,632
Finance expense	**(2,151)**	(1,857)	(3,766)
Profit before taxation	**9,029**	9,738	17,732
Total assets by segment			
Services	**100,278**	96,973	103,324
European Pharmaceuticals	**122,568**	129,649	117,741
US Pharmaceuticals	**47,681**	5,754	5,472
Pharmaceuticals research and development	**2,022**	1,542	1,958
Unallocated	**(25,624)**	(28,764)	(22,968)
	246,925	205,154	205,527

3. Finance Income

	Six months ended 31.12.10 £'000	Six months ended 31.12.09 £'000	Year ended 30.06.10 £'000
Recognised in the income statement			
Finance income arising from:			
— cash and cash equivalents	**431**	328	894
— derivatives at fair value through profit or loss	**189**	39	—
— foreign exchange gains	**573**	2,370	626
— loans and receivables	**7**	28	112
	1,200	2,765	1,632
Recognised in other comprehensive income			
— foreign currency translation differences for foreign operations	**2,338**	2,249	(1,949)
— net loss on hedge of net investment in foreign operations	**—**	(1,300)	(1,300)
Amount recycled to income statement*	**(192)**	(192)	(512)
Income tax credit on above	**—**	—	415
Recognised in foreign currency translation reserve	**2,146**	757	(3,346)
— fair value gains on interest rate floor and ceiling	**383**	191	593
— income tax expense on above	**(107)**	(54)	(166)
Recognised in hedging reserve	**276**	137	427
Total recognised in equity	**2,422**	894	(2,919)

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

4. Finance Expense

	Six months ended 31.12.10 £'000	Six months ended 31.12.09 £'000	Year ended 30.06.10 £'000
Recognised in the income statement			
Finance expense arising from:			
— financial liabilities at amortised cost	**1,760**	1,627	3,365
— derivatives at fair value through profit or loss	**—**	230	401
— loss on extinguishment of debt	**391**	—	—
	2,151	1,857	3,766

5. Income Tax Expense

The tax charge for the six months ended 31 December 2010 has been based on the estimated effective rate for the year ending 30 June 2011 of 26.0% (six months ended 31 December 2009: 26.8%, year ended 30 June 2010: 25.8%).

Notes to the Financial Statements
for the six months ended 31 December 2010

6. Dividends

The Directors have declared an interim dividend of 3.70p per share (2009: 3.30p) costing £2,451,000 (2009: £2,195,000). It is payable on 7 April 2011 to Shareholders whose names are on the Register of Members at close of business on 11 March 2011. The ordinary shares will become ex dividend on 9 March 2011.

As the dividend was declared after the end of the period being reported and in accordance with IAS10 '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 2011.

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
	31.12.10	31.12.09	30.06.10
	Pence	Pence	Pence
Basic earnings per share			
— underlying basic	**15.60**	15.37	29.50
— basic	**10.10**	10.85	19.97
Diluted earnings per share			
— underlying diluted	**15.51**	15.30	29.39
— diluted	**10.05**	10.81	19.89

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	**10,315**	10,098	19,437
Earnings for basic and diluted earnings per share	**6,681**	7,132	13,157

	No.	No.	No.
Weighted average number of ordinary shares for basic earnings per share	**66,137,989**	65,718,167	65,896,462
Impact of share options	**361,933**	271,474	241,438
Weighted average number of ordinary shares for diluted earnings per share	**66,499,922**	65,989,641	66,137,900

8. Underlying Operating Profit and Profit Before Taxation

	Six months ended		Year ended
	31.12.10	31.12.09	30.06.10
	£'000	£'000	£'000
Operating profit			
Underlying operating profit is calculated as follows:			
Operating profit	**9,980**	8,830	19,866
Amortisation of intangible assets acquired as a result of business combinations	**3,871**	3,557	6,580
Payment to acquire technology for research and development programme	**—**	418	418
Expenses of the acquisition of *DermaPet* Inc	**468**	—	—
Expenses of the acquisition of *Genitrix* Limited	**107**	—	—
Rationalisation costs	**49**	—	1,096
Impairment of intangible asset	**—**	—	230
Underlying operating profit	**14,475**	12,805	28,190
Profit before taxation			
Underlying profit before taxation is calculated as follows:			
Profit before taxation	**9,029**	9,738	17,732
Amortisation of intangible assets acquired as a result of business combinations	**3,871**	3,557	6,580
Payment to acquire technology for research and development programme	**—**	418	418
Expenses of the acquisition of *DermaPet* Inc	**468**	—	—
Expenses of the acquisition of *Genitrix* Limited	**107**	—	—
Rationalisation costs	**49**	—	1,096
Impairment of intangible asset	**—**	—	230
Loss on extinguishment of debt	**391**	—	—
Underlying profit before taxation	**13,915**	13,713	26,056

9. Analysis of Net Borrowings

	As at	As at	As at
	31.12.10	31.12.09	30.06.10
	£'000	£'000	£'000
Bank loans and overdraft	**(66,759)**	(41,886)	(37,033)
Finance leases and hire purchase contracts	**(978)**	(1,573)	(1,170)
Cash and cash equivalents	**18,089**	25,000	31,502
	(49,648)	(18,459)	(6,701)

On 21 October 2010, the Group refinanced its existing debt facility, which gave rise to a loss on extinguishment of debt of £391,000. The Group's revised borrowing facilities comprise a term loan of £40 million repayable over four years, a £28 million revolving credit facility committed until 30 September 2014 and an overdraft facility of £10 million, currently unutilised, renewable on 31 August 2011.

Notes to the Financial Statements
for the six months ended 31 December 2010

10. Acquisitions

Acquisition of DermaPet Inc.

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

The acquisition of *DermaPet* Inc. increases Dechra's US presence and complements its EU range in this key strategic therapeutic category.

	Book value £'000	Provisional fair value £'000
Recognised amounts of identifiable assets acquired and liabilities assumed		
Financial assets		
Trade and other receivables	1,084	1,084
Inventory	384	384
Identifiable intangible assets	—	38,909
Financial liabilities		
Overdraft	(1)	(1)
Trade and other payables	(216)	(216)
Total identifiable assets	**1,251**	**40,160**
Goodwill		**326**
Total consideration		**40,486**
Satisfied by:		
Cash		27,519
Deferred consideration		1,163
Contingent consideration arrangement		11,804
Total consideration transferred		**40,486**
Net cash outflow arising on acquisition		
Cash consideration		27,519
Add: bank overdraft		1
		27,520

The fair values shown above are provisional and may be amended if information not currently available comes to light.

The fair value of the financial assets includes trade receivables with a fair value of £1,076,000. At the date of acquisition we estimate that all outstanding trade receivables will be collected.

The fair value adjustment in relation to intangible assets recognises brands and trademarks in accordance with IFRS 3.

The goodwill of £326,000 arising from the acquisition consists of the assembled workforce and increased geographical presence in the US. The goodwill and identified intangibles are expected to be deductible for income tax purposes.

The deferred consideration arrangement requires payments of US$1,000,000 to be paid on the second and fourth anniversaries of the completion date. The contingent consideration arrangement requires if *DermaPet* Inc. achieves revenues in excess of US$15,000,000 in any rolling 12 month period commencing on the first anniversary of completion and ending on the sixth anniversary of completion, contingent consideration of US$15,000,000 will become payable. If revenues on the same criteria exceed US$20,000,000, a further US$5,000,000 will become due.

Acquisition related costs (included in non-underlying operating expenses) amounted to £468,000.

DermaPet Inc. contributed £1,340,000 revenue and £638,000 operating profit to the Group's profit for the period between the date of acquisition and the balance sheet date.

10. **Acquisitions** continued

Acquisition of Genitrix Limited

On 1 December 2010, the Group acquired 100 per cent of the share capital of *Genitrix* Limited. The acquisition of *Genitrix* Limited, a veterinary pharmaceuticals company based in Billingshurst, UK, is consistent with our strategy to grow our domestic and international pharmaceutical business.

	Book value £'000	Provisional fair value £'000
Recognised amounts of identifiable assets acquired and liabilities assumed		
Financial assets		
Intangible assets	184	184
Property, plant and equipment	27	23
Trade and other receivables	326	326
Inventory	217	217
Cash and cash equivalents	59	59
Identifiable intangible assets	—	5,596
Financial liabilities		
Trade and other payables	(318)	(318)
Deferred tax liabilities	(36)	(36)
Total identifiable assets	**459**	**6,051**
Goodwill		**335**
Total consideration		**6,386**
Satisfied by:		
Cash		5,586
Contingent consideration arrangement		800
Total consideration transferred		**6,386**
Net cash outflow arising on acquisition		
Cash consideration		5,586
Less: cash and cash equivalent balances acquired		(59)
		5,527

The fair values shown above are provisional and may be amended if information not currently available comes to light.

The fair value of the financial assets includes trade receivables with a fair value of £290,000. At the date of acquisition we estimate that all outstanding trade receivables will be collected.

The fair value adjustment in relation to intangible assets recognises brands and trademarks in accordance with IFRS 3.

The goodwill of £335,000 arising from the acquisition consists of the assembled workforce and associated technical expertise. None of the goodwill is expected to be deductible for income tax purposes.

The contingent consideration arrangement requires payment of £800,000 to be paid on the achievement of specific milestones.

Acquisition related costs (included in non-underlying operating expenses) amounted to £107,000.

Genitrix Limited contributed £296,000 revenue and £44,000 operating profit to the Group's profit for the period between the date of acquisition and the balance sheet date.

If the acquisitions of *DermaPet* Inc. and *Genitrix* Limited had been completed on the first day of the financial year, Group revenues for the period would have been £196,725,000 and underlying pre-tax profit would have been £15,109,000.

Notes to the Financial Statements
for the six months ended 31 December 2010

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
	31.12.10	31.12.09	at 31.12.10
Danish krone	**8.81435**	8.3921	8.6830
US dollar	**1.56584**	1.6372	1.5609
Euro	**1.18274**	1.13	1.1666

12. Contingency

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

13. 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 2010 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 2010 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
22 February 2011

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Trademarks

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