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Dechra® Pharmaceuticals PLC

Half-Yearly Financial Report

for the six months ended 31 December 2011

	2011	2010	**%**
Revenue	**£209.5m**	£192.2m	9.0
Underlying operating profit*	**£16.2m**	£14.5m	11.8
Operating profit	**£11.0m**	£10.0m	10.1
Underlying profit before taxation*	**£14.3m**	£13.9m	3.0
Underlying profit before taxation at constant currency*	**£15.1m**	£13.6m	11.3
Profit before taxation	**£8.9m**	£9.0m	
Underlying earnings per share*	**15.86p**	15.60p	1.7
Earnings per share	**10.09p**	10.10p	
Interim dividend per share	**4.10p**	3.70p	10.8
Net borrowings	**£46.1m**	£49.6m	

- Strong growth delivered through Dechra's key strategic Pharmaceutical segments
- Good revenue growth from Services
- Equine product acquisition completed
- FDA approval achieved at *Dales*® manufacturing site
- Balance sheet remains strong

** before amortisation of acquired intangibles, acquisition expenses, rationalisation costs, impairment charges, loss on extinguishment of debt and the unwinding of discounts on deferred and contingent consideration (see note 8).*

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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 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.

Dechra Pharmaceuticals PLC
Half-Yearly Financial Report 2012
for the six months ended 31 December 2011

Introduction

In the first six months of the financial year Dechra has delivered strong growth in its key strategic Pharmaceuticals segments. The main factors driving the performance in this period are the solid organic growth from our pharmaceutical products, the contribution from the two acquisitions made in the previous financial year and the benefit from the in-house marketing of *Vetoryl*®.

Good revenue growth was seen in our Services segment, however as previously reported gross margin remained under pressure and was reduced in the period due to product mix and increased discounting in a highly competitive market.

Overall the Group has performed to management's expectation during the period.

Financials

In the six months ended 31 December 2011, Group revenue increased by 9.0% to £209.5 million (2010: £192.2 million). Underlying operating profit rose to £16.2 million (2010: £14.5 million), an increase of 11.8%. Underlying profit before taxation was £14.3 million compared to the £13.9 million achieved in 2010. At constant currency and excluding foreign currency gains and losses, underlying profit before tax was £15.1 million, an increase of 11.3% compared to the equivalent period in 2010. Operating profit was £11.0 million (2010: £10.0 million). Profit before taxation was £8.9 million (2010: £9.0 million).

Underlying basic earnings per share was 15.86 pence (2010: 15.60 pence). Basic earnings per share was 10.09 pence (2010: 10.10 pence).

Cash flow from operating activities was £1.4 million compared to the £0.8 million achieved in 2010. In accordance with our normal cash flow cycle, we expect a strong cash inflow in the second half of the financial year.

Inventory at 31 December 2011 was high due to pre-Christmas purchasing at *NVS* with inventories falling to more normal levels during January.

Trade receivable days at 31 December 2011 was 48 compared to 42 at 31 December 2010, reflecting increased sales to corporate accounts with extended payment terms at *NVS*.

Net borrowings at 31 December 2011 were £46.1 million compared to £34.1 million at 30 June 2011 and £49.6 million at 31 December 2010.

Total available bank facilities are currently £70.0 million of which £10.0 million, currently not utilised, is renewable within the next 12 months.

Interest cover on underlying operating profit was 12.9 times (2010: 10.9 times) excluding gains and losses on foreign exchange movements and derivative contracts.

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Dividend

The Board is pleased to declare an interim dividend of 4.1 pence per share (2010: 3.7 pence), an increase of 10.8%. The interim dividend is covered 3.9 times by underlying profit after taxation (2010: 4.2 times).

The dividend is payable on 10 April 2012 to Shareholders on the Register of Members at close of business on 9 March 2012. The ordinary shares will become ex dividend on 7 March 2012.

Review

European Pharmaceuticals

Pharmaceutical Products

All product groups have demonstrated solid organic growth at constant currency throughout the period. Demand for our products in the majority of Northern European markets remain strong and are delivering higher than expected growth. Good growth has been seen from both *Felimazole*® and *Vetoryl* since their introduction into our own subsidiary sales and marketing teams. The *DermaPet*® products acquired in October 2010 have been launched in the Nordic territories in Dechra livery with positive initial sales; the range has also been prepared in Dechra livery for imminent launch into other key European subsidiary territories.

The restructure that created a Benelux operation is progressing well and initial sales in Belgium achieved management expectations.

Specialist Pet Diets

Sales of specialist pet diets were flat in the period because of reduced export sales due to the phasing of orders; this was offset by modest sales growth in our core markets. Sales growth in our subsidiary territories improved in December and export was also bolstered at the end of the period by the successful launch of the range into South Korea.

We have now successfully completed the supply change of all the feline dry products into our new outsourced manufacturing facility in Sweden following the transfer of our canine diets in the preceding financial year. The wet diets have also been re-optimised and will be re-introduced in spring 2012 in a new European pack presentation with nine languages. This will improve operational efficiency as it reduces the number of stocking units from 130 to 19. The introduction of a senior wet diet for dogs and cats to provide balanced nutrition in older animals is also planned for later in the financial year.

Manufacturing

Following the successful US Food and Drug Administration ("FDA") approval of our manufacturing facility, *Dales* Pharmaceuticals *("Dales")*, in November 2011, we have commenced the first in-house production of 120mg *Vetoryl* capsules for the US market. Work has started on extending this licence into other dosage strengths of *Vetoryl*. Furthermore, plans are being prepared to extend FDA approval to other products and dosage forms.

A Medicine and Healthcare products Regulatory Agency ("MHRA") audit has also been conducted over the period which achieved the highest audit standard in our history.

Commercially we have seen a 9.4% increase in our contract manufacturing business compared to the corresponding period last year. We have also agreed terms with third party customers to provide contract technical services, for example formulation, analytic method development, validation and stability testing.

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US Pharmaceuticals

Dechra Veterinary Products US ("DVP US")

A strong sales performance by DVP US was driven by *DermaPet* sales, where move out in new Dechra livery from veterinary practices increased over the corresponding period last year by 17.0%. *Vetoryl* sales also increased by 14.0% over the corresponding period, despite continued pro-active competition from compounding pharmacies. A 120mg strength of *Vetoryl* has been launched and a 5mg presentation is also being developed to increase dosing options to negate the perceived need for a compounded product. We have continued to extend educational programmes to increase awareness of Cushing's syndrome, the condition for which *Vetoryl* is prescribed; two new field based veterinarians have been appointed to conduct meetings and presentations across the United States.

A new monthly e-newsletter focusing on the technical aspects of our products has been launched to approximately 10,000 subscribing veterinarians.

Services

Services revenue performed strongly with a 7.3% increase compared to the corresponding period last year. This was partly due to the soft comparison with the corresponding weather affected period, however, there has also been some market recovery.

Operating efficiencies were gained in the period, however margin declined at our distributor National Veterinary Services ("*NVS*®") due to an increase in discount allowed and a decline in the proportion of revenue from higher margin product groups. The increase in discount allowed has been a feature of the competitive market place for many years; however the sales mix has been highly influenced in the last two years due to consumers buying products such as therapeutic pet diets from internet pharmacies, a sector in which we are underweight.

Our new integrated IT system which went live on 1 July 2011 is now functioning efficiently and will provide a technical platform to enable *NVS* to develop new services and to meet customer needs in the future. We have developed and launched a service to practices which enables them to offer their own webshop to their clients with an option of home delivery. This will allow our customers to compete directly with internet pharmacies. We have also developed and launched 'new indices', an in-depth analytical tool for practices to monitor and manage their business performance through benchmarking and trend analysis. These new services, and a number of identified margin improvement opportunities, should arrest the decline in the operating margin.

Although inventory was higher than normal at the end of December there was a substantial reduction during January. The new IT system will improve the purchasing process going forward.

Product Development

Libromide®, a product registered in the UK for canine epilepsy, acquired as part of *Genitrix*® Limited in December 2010, has gained approval through the Mutual Recognition procedure throughout Europe. The product will be launched in all major territories in the second half of this financial year.

Manufacturing problems on our new novel equine product, reported in the Annual Report and Accounts for the year ended 30 June 2011, have been overcome. Terms have been agreed with a new manufacturer and initial validation batches of the product will be manufactured shortly. All other pharmaceutical development projects are progressing to expectations and the pipeline remains robust. Additionally, new opportunities have been identified and a pharmaceutical which is novel to the veterinary market is currently being screened for effectiveness.

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Two new therapeutic pet diets have been developed during the period; *Specific*® CED Canine Endocrine Support and *Specific* FID Feline Digestive Support. *Specific* CED has been developed to support the treatment of endocrine disorders such as diabetes and Cushing's syndrome, therefore it is ideal to market alongside our pharmaceutical endocrine products, one of our key areas of specialisation and strategic focus. *Specific* FID is a complete dietetic food for adult cats with acute and chronic gastrointestinal disorders. An additional therapeutic diet has been developed, which we are planning to market in the second half of this financial year.

Acquisition

In January 2012, post the period being reported, an equine product was acquired from Bexinc Limited for 8.03 million Canadian dollars. The product, *HY-50*®, is used for intra-articular or intravenous treatment of lameness in horses caused by joint dysfunction. It currently has marketing approvals in 10 European countries; registrations in other territories are currently being prepared.

For the year ended 28 February 2011, *HY-50* earned revenue of US$2.2 million and operating income of US$1.0 million. The consideration was funded from the Group's existing cash resources. The acquisition will make a small contribution in the second half of the financial year and will be earnings enhancing in the year ending 30 June 2013.

Outlook

Trading within our veterinary product segment, the main area of our strategic focus, continues to perform robustly. We remain well positioned to maintain strong growth by continued organic growth of existing products, expansion into new territories and the introduction of new products.

The overall economic environment will continue to pose challenges, especially in our Services segment, however overall market growth continues to exceed pre-year expectations.

Although revenue growth in our Services segment has been offset by a decrease in margin, the Group's Pharmaceuticals segments continues to perform well; we therefore remain confident in our growth strategy.

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 is 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.

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

Strategy	**Risk**	**How we mitigate the risk**
To continue to develop a high growth, cash generative specialist veterinary products business	Competitor product launched against one of our leading brands	• Product improvement plans and marketing strategies are reviewed on a regular basis • Where competitor products are launched a response strategy is established and followed by our marketing team to highlight any unique selling points or competitive advantages or to position our products defensively to minimise competitor impact • Market research is conducted in order to allow the marketing team to better understand customer needs and ensure that our products fulfil the identified requirements • Any product patents are monitored and consideration given to the formulation of a defensive strategy towards the end of the life of the patent
To sustain growth from our core businesses	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 them (including face to face meetings) • Where it becomes evident that issues in relation to manufacturing/supply may arise alternative suppliers are identified and detailed plans drafted. Where a manufacturing transfer is required stock is built up in order to avoid/mitigate an out of stock situation • In respect of manufacturing, a "second sourcing" project for key materials has been established and maintained • All contracts with key suppliers and customers are reviewed from both a commercial and legal perspective to ensure that assignment of the contract is allowed should there be a change of control of either of the contracting parties
	Failure to meet regulatory requirements under which we operate thereby disrupting our operations and our product manufacture pipeline/loss of key products due to regulatory changes	• The Group always strives to exceed regulatory requirements and ensures that its employees have detailed experience and knowledge of the regulations • All businesses have clearly established quality systems and procedures in place • Regular contact is maintained with all relevant regulatory bodies in order to build/strengthen relationships and ensure good communication lines • The regulatory and legal teams remain constantly updated in respect of proposed/actual changes in order to ensure that the business is equipped to deal with and adhere to such changes • Where any changes are identified which could affect our ability to continue to market and sell any of our products a response team is created in order to mitigate such risk and to retain effective communication with the relevant regulators
	Increasingly competitive UK veterinary market place (resulting in margin pressure)	• The *NVS* management team are committed to providing high levels of service and are developing innovative solutions to support veterinary practices to differentiate ourselves from our competitors

21 February 2012

Michael Redmond
Non-Executive Chairman

Ian Page
Chief Executive

Dechra Pharmaceuticals PLC
Half-Yearly Financial Report for the six months ended 31 December 2011

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
Simon Evans, Group Finance Director
21 February 2012

Condensed Consolidated Income Statement
for the six months ended 31 December 2011

	Note	Six months ended 31.12.11 £'000	Six months ended 31.12.10 £'000	Year ended 30.06.11 £'000
Revenue	2	**209,511**	192,208	389,237
Cost of sales		**(163,038)**	(150,115)	(300,876)
Gross profit		**46,473**	42,093	88,361
Distribution costs		**(8,877)**	(8,746)	(17,659)
Administrative expenses		**(26,607)**	(23,367)	(48,984)
Operating profit	2	**10,989**	9,980	21,718
Underlying operating profit	8	**16,179**	14,475	31,823
Non-underlying items*	8	**(5,190)**	(4,495)	(10,105)
Operating profit		**10,989**	9,980	21,718
Finance income	3	**290**	1,200	2,144
Underlying finance expense	4	**(2,136)**	(1,760)	(3,898)
Non-underlying items*	4	**(199)**	(391)	(1,450)
Finance expense		**(2,335)**	(2,151)	(5,348)
Profit before taxation	2	**8,944**	9,029	18,514
Underlying profit before taxation	8	**14,333**	13,915	30,069
Non-underlying items*	8	**(5,389)**	(4,886)	(11,555)
Profit before taxation		**8,944**	9,029	18,514
Income tax expense	5	**(2,236)**	(2,348)	(4,380)
Profit for the period attributable to equity owners of the parent		**6,708**	6,681	14,134
Underlying profit after taxation		**10,548**	10,315	22,748
Non-underlying items*		**(3,840)**	(3,634)	(8,614)
Profit for the period attributable to equity owners of the parent		**6,708**	6,681	14,134
Earnings per share				
Basic	7	**10.09p**	10.10p	21.33p
Diluted	7	**10.06p**	10.05p	21.26p
Dividend per share	6	**4.10p**	3.70p	12.10p

* non-underlying items comprise amortisation of acquired intangibles, acquisition expenses, rationalisation costs, impairment charges, loss on extinguishment of debt and unwinding of discounts on deferred and contingent consideration.

Condensed Consolidated Statement of Comprehensive Income
for the six months ended 31 December 2011

	Six months ended		Year ended
	31.12.11	31.12.10	30.06.11
	£'000	£'000	£'000
Profit for the period	**6,708**	6,681	14,134
Other comprehensive income:			
Effective portion of changes in fair value of cash flow hedges	**(188)**	383	(684)
Cash flow hedges recycled to income statement	**199**	-	670
Foreign currency translation differences for foreign operations	**(3,667)**	2,338	3,411
Recycled to income statement	**-**	(192)	-
Income tax relating to components of other comprehensive income	**(3)**	(107)	(4)
Total comprehensive income for the period attributable to equity owners of the parent	**3,049**	9,103	17,527

Condensed Consolidated Statement of Financial Position
at 31 December 2011

	Note	**As at 31.12.11 £'000**	As at 31.12.10 £'000	As at 30.06.11 £'000
ASSETS				
Non-current assets				
Intangible assets		**116,835**	125,873	125,098
Property, plant & equipment		**7,344**	7,714	7,721
Total non-current assets		**124,179**	133,587	132,819
Current assets				
Inventories		**48,398**	42,261	40,760
Trade and other receivables		**64,712**	52,988	66,293
Cash and cash equivalents	9	**15,131**	18,089	30,496
Total current assets		**128,241**	113,338	137,549
Total assets		**252,420**	246,925	270,368
LIABILITIES				
Current liabilities				
Borrowings	9	**(8,474)**	(8,457)	(8,502)
Trade and other payables		**(64,213)**	(70,825)	(74,559)
Deferred and contingent consideration		**(300)**	-	(500)
Current tax liabilities		**(4,632)**	(5,522)	(5,391)
Total current liabilities		**(77,619)**	(84,804)	(88,952)
Non-current liabilities				
Borrowings	9	**(52,728)**	(59,280)	(56,085)
Deferred and contingent consideration		**(13,593)**	-	(13,555)
Deferred tax liabilities		**(11,896)**	(11,130)	(13,443)
Total non-current liabilities		**(78,217)**	(70,410)	(83,083)
Total liabilities	2	**(155,836)**	(155,214)	(172,035)
Net assets		**96,584**	91,711	98,333
EQUITY				
Issued share capital		**668**	663	664
Share premium account		**63,890**	63,430	63,559
Hedging reserve		**(286)**	-	(294)
Foreign currency translation reserve		**1,084**	3,486	4,751
Merger reserve		**1,770**	1,770	1,770
Retained earnings		**29,458**	22,362	27,883
Total equity attributable to equity owners of the parent		**96,584**	91,711	98,333

Condensed Consolidated Statement of Changes in Shareholders' Equity for the six months ended 31 December 2011

	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 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 translation differences for foreign operations, net of tax	-	-	-	2,338	-	-	**2,338**
Cash flow hedges 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**
Total contributions by and distribution to owners	2	409	-	-	-	(4,031)	**(3,620)**
At 31 December 2010	663	63,430	-	3,486	1,770	22,362	**91,711**
Year ended 30 June 2011							
At 1 July 2010	661	63,021	(276)	1,340	1,770	19,712	**86,228**
Profit for the period	-	-	-	-	-	14,134	**14,134**
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	(506)	-	-	-	**(506)**
Foreign currency translation differences for foreign operations, net of tax	-	-	-	3,411	-	-	**3,411**
Cash flow hedges recycled to income statement, net of tax	-	-	488	-	-	-	**488**
Total comprehensive income for the period	-	-	(18)	3,411	-	14,134	**17,527**
Transactions with owners							
Dividends paid	-	-	-	-	-	(7,221)	**(7,221)**
Share-based payments	-	-	-	-	-	1,258	**1,258**
Shares issued	3	538	-	-	-	-	**541**
Total contributions by and distribution to owners	3	538	-	-	-	(5,963)	**(5,422)**
At 30 June 2011	664	63,559	(294)	4,751	1,770	27,883	**98,333**
Six months ended 31 December 2011							
At 1 July 2011	**664**	**63,559**	**(294)**	**4,751**	**1,770**	**27,883**	**98,333**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**6,708**	**6,708**
Effective portion of changes in fair value of cash flow hedges, net of tax	**-**	**-**	**(139)**	**-**	**-**	**-**	**(139)**
Foreign currency translations differences for foreign operations, net of tax	**-**	**-**	**-**	**(3,667)**	**-**	**-**	**(3,667)**
Cash flow hedges recycled to income statement, net of tax	**-**	**-**	**147**	**-**	**-**	**-**	**147**
Total comprehensive income for the period	**-**	**-**	**8**	**(3,667)**	**-**	**6,708**	**3,049**
Transactions with owners							
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(5,584)**	**(5,584)**
Share-based payments	**-**	**-**	**-**	**-**	**-**	**451**	**451**
Shares issued	**4**	**331**	**-**	**-**	**-**	**-**	**335**
Total contributions by and distribution to owners	**4**	**331**	**-**	**-**	**-**	**(5,133)**	**(4,798)**
At 31 December 2011	**668**	**63,890**	**(286)**	**1,084**	**1,770**	**29,458**	**96,584**

Condensed Consolidated Statement of Cash Flows
for the six months ended 31 December 2011

	Note	Six months ended 31.12.11 £'000	Six months ended 31.12.10 £'000	Year ended 30.06.11 £'000
Cash flows from operating activities				
Profit for the period		**6,708**	6,681	14,134
Adjustments for:				
Depreciation		**772**	717	1,535
Amortisation		**6,051**	4,585	10,362
(Profit)/loss on sale of property, plant and equipment		**(1)**	1	1
Finance income	3	**(290)**	(1,200)	(2,144)
Finance expense	4	**2,335**	2,151	5,348
Equity-settled share-based payment expenses		**562**	345	830
Income tax expense		**2,236**	2,348	4,380
Operating cash flow before changes in working capital		**18,373**	15,628	34,446
Increase in inventories		**(8,317)**	(6,619)	(4,814)
Decrease/(increase) in trade and other receivables		**39**	186	(12,408)
(Decrease)/increase in trade and other payables		**(8,742)**	(8,353)	8,150
Cash flow from operating activities before interest and taxation		**1,353**	842	25,374
Interest paid		**(1,497)**	(1,638)	(3,586)
Income taxes paid		**(3,822)**	(2,179)	(5,034)
Net cash (outflow)/inflow from operating activities		**(3,966)**	(2,975)	16,754
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		**6**	2	2
Interest received		**135**	438	957
Acquisition of subsidiaries	10	**(500)**	(33,047)	(33,047)
Purchase of property, plant and equipment		**(602)**	(619)	(1,280)
Capitalised development expenditure		**(182)**	(424)	(1,025)
Purchase of other intangible non-current assets		**(515)**	(983)	(1,785)
Net cash outflow from investing activities		**(1,658)**	(34,633)	(36,178)
Cash flows from financing activities				
Proceeds from the issue of share capital		**335**	411	541
New borrowings		**-**	68,000	68,000
Expenses of raising new borrowings		**-**	(944)	(944)
Repayment of borrowings		**(4,295)**	(37,692)	(41,829)
Resetting of foreign currency borrowings		**(199)**	(580)	320
Dividends paid		**(5,584)**	(4,764)	(7,221)
Net cash (outflow)/inflow from financing activities		**(9,743)**	24,431	18,867
Net decrease in cash and cash equivalents		**(15,367)**	(13,177)	(557)
Cash and cash equivalents at start of period		**30,496**	31,502	31,502
Exchange differences on cash and cash equivalents		**2**	(236)	(449)
Cash and cash equivalents at end of period		**15,131**	18,089	30,496
Reconciliation of net cash flow to movement in net borrowings				
Net decrease in cash and cash equivalents		**(15,367)**	(13,177)	(557)
Repayment of borrowings		**4,295**	37,692	41,829
New borrowings		**-**	(68,000)	(68,000)
Arrangement fees and expenses on new borrowings		**-**	944	944
Exchange differences on cash and cash equivalents		**2**	(236)	(449)
Retranslation of foreign borrowings		**(910)**	390	254
Loss on extinguishment of debt		**-**	(391)	-
Other non-cash changes		**-**	(169)	(1,411)
Movement in net borrowings in the period		**(11,980)**	(42,947)	(27,390)
Net borrowings at start of period		**(34,091)**	(6,701)	(6,701)
Net borrowings at end of period	9	**(46,071)**	(49,648)	(34,091)

Notes to the Financial Statements
for the six months ended 31 December 2011

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 2011 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 2011 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 2011 and the unaudited financial information in the half-yearly financial report for the six months ended 31 December 2010. The comparative figures for the financial year ended 30 June 2011 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's Auditor and delivered to the Registrar of Companies. The report of the Auditor (i) was unqualified, (ii) did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

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

The condensed set of financial statements for the six months ended 31 December 2011 are unaudited but have been reviewed by the Auditor. The independent review report is set out on page 20.

Statement of Compliance

The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU. The condensed set of financial statements does not include all of the information required for full annual financial statements, and should be read in conjunction with the Group financial statements as at, and for, the year ended 30 June 2011.

This condensed set of financial statements was approved by the Board of Directors on 21 February 2012.

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 2011, except where new or revised accounting standards have been applied.

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

New and Revised Standards
The following standards/revisions to standards and interpretations are applicable to the Group and have been adopted as they are mandatory for the year ending 30 June 2012

- IAS 24 Related Party Disclosures (revised 2009)

Improvement to IFRS

- IAS 7 Financial Instruments: Disclosures – Amendments to disclosures

- IAS 1 Presentation of Financial Statements – Presentation of Statement of Changes in Equity

- IAS 34 Interim Financial Reporting – Significant Events and Transactions

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2. Segmental Analysis

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

The Services segment comprises National Veterinary Services, 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
	31.12.11	31.12.10	30.06.11
	£'000	£'000	£'000
Revenue by segment			
Services - total	**159,500**	148,592	296,258
- intersegment	**(260)**	(102)	(190)
European Pharmaceuticals - total	**48,281**	43,677	89,287
- intersegment	**(7,241)**	(6,435)	(12,225)
US Pharmaceuticals	**9,231**	6,476	16,107
	209,511	192,208	389,237
Operating profit / (loss) by segment			
Services	**5,397**	6,349	13,087
European Pharmaceuticals	**12,780**	10,436	22,506
US Pharmaceuticals	**2,302**	1,846	4,838
Pharmaceuticals research and development	**(2,405)**	(2,456)	(5,221)
Segment operating profit	**18,074**	16,175	35,210
Corporate and other unallocated costs	**(1,895)**	(1,700)	(3,387)
Underlying operating profit	**16,179**	14,475	31,823
Amortisation of acquired intangibles	**(5,190)**	(3,871)	(8,938)
Rationalisation costs	**-**	(49)	(474)
Acquisition costs	**-**	(575)	(693)
Total operating profit	**10,989**	9,980	21,718
Finance income	**290**	1,200	2,144
Finance expense	**(2,335)**	(2,151)	(5,348)
Profit before taxation	**8,944**	9,029	18,514
Total liabilities by segment			
Services	**(47,865)**	(42,073)	(58,337)
European Pharmaceuticals	**(13,415)**	(14,401)	(14,465)
US Pharmaceuticals	**(14,527)**	(14,568)	(13,837)
Pharmaceuticals research and development	**(249)**	(129)	(654)
Segment liabilities	**(76,056)**	(71,171)	(87,293)
Corporate loans and revolving credit facility	**(60,700)**	(66,850)	(63,814)
Corporate accruals and other payables	**(2,552)**	(541)	(2,094)
Current and deferred tax liabilities	**(16,528)**	(16,652)	(18,834)
	(155,836)	(155,214)	(172,035)

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3. Finance Income

	Six months ended		Year ended
	31.12.11	31.12.10	30.06.11
	£'000	£'000	£'000
Recognised in the income statement			
Finance income arising from:			
- cash and cash equivalents	**135**	431	1,113
- derivatives at fair value through profit or loss	**155**	189	-
- foreign exchange gains	**-**	573	999
- loans and receivables	**-**	7	32
	290	1,200	2,144

4. Finance Expense

	Six months ended		Year ended
	31.12.11	31.12.10	30.06.11
	£'000	£'000	£'000
Underlying			
Finance expense arising from:			
- financial liabilities at amortised cost	**1,386**	1,760	3,898
- foreign exchange losses	**750**	-	-
Underlying finance expense	**2,136**	1,760	3,898
Non-underlying			
Loss on extinguishment of debt	**-**	391	1,256
Unwinding of discounts on deferred and contingent consideration	**199**	-	194
Non-underlying finance expense	**199**	391	1,450
Total finance expense	**2,335**	2,151	5,348

5. Income Tax Expense

The tax charge for the six months ended 31 December 2011 has been based on the estimated effective rate for the year ending 30 June 2012 of 25.0% (six months ended 31 December 2010: 26.0%, year ended 30 June 2011: 24.3%).

6. Dividends

The final dividend for the year ended 30 June 2011 of 8.40p per share costing £5,584,000 has been paid in the period.

The Directors have declared an interim dividend of 4.10p per share (2010: 3.70p) costing £2,738,000 (2010: £2,457,000). It is payable on 10 April 2012 to Shareholders whose names are on the Register of Members at close of business on 9 March 2012. The ordinary shares will become ex dividend on 7 March 2012.

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 2012.

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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
	31.12.11	31.12.10	30.06.11
	Pence	Pence	Pence
Basic earnings per share			
- underlying*	**15.86**	15.60	34.33
- basic	**10.09**	10.10	21.33
Diluted earnings per share			
- underlying*	**15.82**	15.51	34.22
- diluted	**10.06**	10.05	21.26
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	**10,548**	10,315	22,748
Earnings for basic and diluted earnings per share	**6,708**	6,681	14,134
	No.	No.	No.
Weighted average number of ordinary shares for basic earnings per share	**66,489,328**	66,137,989	66,253,477
Impact of share options	**202,109**	361,933	221,013
Weighted average number of ordinary shares for diluted earnings per share	**66,691,437**	66,499,922	66,474,490

**Underlying measures exclude non-underlying items as defined on the condensed consolidated income statement.*

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8. Underlying Operating Profit and Profit Before Taxation

	Six months ended		Year ended
	31.12.11	31.12.10	30.06.11
	£'000	£'000	£'000
Operating profit			
Underlying operating profit is calculated as follows:			
Operating profit	**10,989**	9,980	21,718
Amortisation of intangible assets acquired as a result of business combinations	**5,190**	3,871	8,938
Expenses of the acquisition of *DermaPet* Inc	**-**	468	585
Expenses of the acquisition of *Genitrix* Limited	**-**	107	108
Rationalisation costs	**-**	49	474
Underlying operating profit	**16,179**	14,475	31,823
Profit before taxation			
Underlying profit before taxation is calculated as follows:			
Profit before taxation	**8,944**	9,029	18,514
Amortisation of intangible assets acquired as a result of business combinations	**5,190**	3,871	8,938
Expenses of the acquisition of *DermaPet* Inc	**-**	468	585
Expenses of the acquisition of *Genitrix* Limited	**-**	107	108
Rationalisation costs	**-**	49	474
Unwinding of discounts on deferred and contingent consideration	**199**	-	194
Loss on extinguishment of debt	**-**	391	1,256
Underlying profit before taxation	**14,333**	13,915	30,069

9. Analysis of Net Borrowings

	As at	As at	As at
	31.12.11	31.12.10	30.06.11
	£'000	£'000	£'000
Bank loans and overdraft	**(60,656)**	(66,759)	(63,746)
Finance leases and hire purchase contracts	**(546)**	(978)	(841)
Cash and cash equivalents	**15,131**	18,089	30,496
	(46,071)	(49,648)	(34,091)

10. Acquisition of *Genitrix* Limited

During the period the Group paid a further £500,000 in respect of the acquisition of *Genitrix* Limited on the achievement of a milestone target. The maximum further consideration payable is £300,000.

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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**
	31.12.11	31.12.10	**at 31.12.11**
Danish krone	**8.5769**	8.81435	**8.8698**
US dollar	**1.5919**	1.56584	**1.5453**
Euro	**1.1521**	1.18274	**1.1933**

12. Post Balance Sheet Events

Acquisition of *HY-50*

On 31 January 2012 the Group acquired the worldwide rights (excluding Canada) to *HY-50*, an equine lameness product. The total consideration was 8.03 million Canadian dollars (£5.1 million) which was paid in cash on completion.

The fair value of the asset acquired has been provisionally assessed at £5.1 million which has been allocated to product rights.

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.

14. Trademarks

Trademarks appear throughout this document in italics. Dechra and the Dechra 'D' logo are registered Trademarks of Dechra Pharmaceuticals PLC. The *Malaseb* Trademark is used under licence from Dermcare-Vet Pty. Ltd.

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 2011 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 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

Graham Neale
for and on behalf of KPMG Audit Plc
Chartered Accountants
21 February 2012

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