Independent Auditors' Report to the Members of Dechra Pharmaceuticals PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- Dechra Pharmaceuticals PLC's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 30 June 2021 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Consolidated and Company Statements of Financial Position as at 30 June 2021; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, and the Consolidated and Company Statements of Changes in Shareholders' Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1 to the financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- Following our assessment of the risks of material misstatement of the Group financial statements we performed audits of the complete financial information of 21 reporting units.
- In addition, the Group engagement team audited the Company and certain centralised functions, including those covering Group treasury operations, corporate taxation, and goodwill and intangible asset impairment assessments.
- The components on which audits of the complete financial information and centralised work was performed accounted for 89% of Group revenue, 82% of Group underlying operating profit and 89% of Group profit before tax. In addition, one component team was instructed to perform specified procedures over one reporting unit.
- For the full scope audits and the specified procedures performed by component audit teams, in addition to the issuance of formal written instructions, throughout the audit process the Group engagement team held virtual meetings on approach and conclusions with the component audit teams, performed 6 virtual file reviews of component auditors' working papers and reviewed the formal reporting from component auditors. In addition, the Group engagement team also audited all of the UK components that were in scope for the Group audit.

Key audit matters

- Licensing agreements and associated contingent considerations (Group)
- Taxation (Group)
- Impairment of intangible assets (Group)
- Consideration of the impact of Covid-19 (Group & Company)

Materiality

- Overall Group materiality: £4.8 million (2020: £3.8 million) based on 3% of underlying operating profit.
- Overall Company materiality: £3.2 million (2020: £3.1 million) based on 0.5% of net assets.
- Performance materiality: £3.6 million (Group) and £2.4 million (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Acquisition accounting, which was a key audit matter last year, is no longer included because of the likelihood of a material misstatement occurring in this area is considered to be low given the immateriality of corporate acquisitions during the current year. New product transactions and consideration of whether or not these should be accounted for in accordance with IFRS 3 is considered within the licensing agreements and associated contingent considerations key audit matter. Otherwise, the key audit matters below are consistent with last year.

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Key audit matter	How our audit addressed the key audit matter
Licensing agreements and associated contingent considerations (Group)	
Refer to the Audit Committee Report on page 115, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 166, and note 30 (Contingent consideration liabilities). **Tri-Solfen® (ANZ territories)** On 5 February 2021 the Group entered into a licensing agreement with Animal Ethics Pty Ltd for the marketing authorisation of Tri-Solfen® in Australia and New Zealand. This was for an initial consideration of AUD 5 million with a contingent consideration of AUD 26 million, as well as a future royalty payable for a finite period. Management have concluded that the future royalty payment for a finite period forms part of the consideration for the licensing agreement and therefore, in accordance with IAS 38 and the Group's accounting policies, has recognised this as contingent consideration with a corresponding increase to the related intangible asset. The accounting for contingent consideration is inherently judgemental and involves estimation uncertainty over the timing and quantum of future cash flows and the discount rate to be used. **Osurnia** On 27 July 2020 the Group completed the acquisition of the worldwide rights of the *Osurnia* product portfolio from Elanco Animal Health Incorporated for a total consideration of USD 135.0 million (£106.5 million). Inventory of USD 6.6 million (£4.7 million) was also acquired as part of the transaction. As a result of acquiring the trade and assets associated with the product, management were required to assess whether or not this met the definition of a business combination in accordance with IFRS 3. In applying the optional concentration test prescribed by IFRS 3, management concluded that the fair value of the gross assets acquired were concentrated in a single asset, being the product rights, and therefore concluded that the acquisition represented a trade and asset acquisition and so accounted for this accordingly. The application of the optional concentration test under IFRS 3 is an area of judgement, however given the significant concentration of value into product rights for *Osurnia* this is not considered to be a critical judgement. **Remeasurement of existing agreements** During the year, liabilities in respect of all existing licensing agreements, the largest being Tri-Solfen® (legacy global rights excluding ANZ) and *Mirataz*, were reassessed based on the most recent forecast of the timing and quantum of future cash flows. The discount rate applied was also reassessed. The variability of the timing and quantum of future cash flows and the discount rate to be applied represents an area of estimation uncertainty.	**Tri-Solfen® (ANZ territories) and Osurnia** In respect of Tri-Solfen® (ANZ territories): • We read the asset purchase agreement to corroborate the terms and consideration. • We obtained management's model and reperformed the calculations forming the basis of the valuation. • We obtained evidence to corroborate the key assumptions underpinning management's cash flow forecasts and benchmarked longer term growth rates against external market data. • We corroborated that the cash flows used are consistent with those reviewed by the Board as part of the acquisition process. We also performed sensitivity analysis on these cash flow forecasts and the discount rate applied to corroborate that a material change is not probable based on a reasonable change in key assumptions. • Our valuation specialists confirmed that the discount rates applied were consistent with those applied by other companies in the industry of comparable size and geographical spread. • We audited the disclosure note associated with acquisition to ensure this meets the requirements of the applicable standards. • Overall we found the accounting for this new licensing agreement and related disclosures to be appropriate and consistent with the audit evidence obtained. In respect of *Osurnia*: • We read the asset purchase agreement in order to understand the nature of the transaction and to ensure that relevant clauses that impact the accounting had been considered by management. • We agreed the consideration paid to the terms of the asset purchase agreement and to the bank statement. • We obtained a copy of management's concentration test performed in accordance with IFRS 3 and challenged whether or not substantially all of the fair value of the gross assets acquired were concentrated in a single asset with reference to the asset purchase agreement and valuation assigned to each asset. • We audited the disclosure note associated with the trade and asset acquisition to ensure that this met the requirements of the applicable standards. • Overall we found the accounting for this trade and asset acquisition and related disclosures to be appropriate and consistent with the audit evidence obtained. **Remeasurement of existing agreements** We obtained management's model and reperformed the calculations forming the basis of the valuation. We have assessed and challenged the changes made to the assumptions underpinning management's cash flow forecasts within the model and obtained evidence to corroborate the key assumptions. We checked that the updated cash flow forecasts aligned to those approved by the Board and we performed sensitivity analysis to take into consideration reasonably possible changes to key assumptions. Our valuation specialists assessed the discount rates applied and confirmed that they were consistent with those applied by other companies in the industry of comparable size and geographical spread. We have audited the disclosure note associated with licensing agreements and associated contingent considerations. Overall we found the accounting for these licensing agreements, contingent considerations and the related disclosures to be appropriate and consistent with the audit evidence obtained.

Key audit matter	How our audit addressed the key audit matter
Taxation (Group) Refer to the Audit Committee Report on page 115, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 166, and note 9 (Income taxes). The Group operates in a complex multi-national tax environment and there are open tax matters and areas of judgement with various overseas tax authorities. In addition, from time to time, the Group enters into commercial transactions with complicated accounting and tax consequences. Judgement is required in assessing the level of provisions required in respect of uncertain tax provisions.	In conjunction with our tax specialists, we evaluated and challenged management's estimates of tax exposures and contingencies in order to assess the adequacy of the Group's tax provisions. Our procedures included obtaining and evaluating certain third party tax advice that the Group has obtained to assess the appropriateness of any assumptions used. In understanding and evaluating management's estimates, we considered the status of recent and current tax authority audits and enquiries, the outcome of previous uncertain positions, positions taken in tax returns and developments in the tax environment. Our findings were then considered in the context of the valuation of uncertain tax positions, with reference to the appropriateness of valuation techniques used in accordance with IFRIC 23, including amounts assigned to each probability where the expected value method was used. Additionally, we reviewed the disclosure note associated with uncertain tax positions and confirmed that this was appropriate. Overall we found the assessment of uncertain tax positions and associated disclosures to be appropriate and consistent with the evidence obtained.
Impairment of intangible assets (Group) Refer to the Audit Committee Report on page 115, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 166, note 12 (Intangible assets) and note 14 (Impairment reviews). In respect of finite lived intangibles, the Directors exercise judgement as to whether impairment triggers, which require a full impairment assessment to be performed, have been identified in relation to intangible assets. Goodwill and indefinite life assets are tested for impairment annually, or more frequently if there are indications that amounts may be impaired. The impairment tests involve determining the recoverable amount of the relevant asset or cash generating unit, which corresponds to the higher of the fair value less costs to sell or its value in use. In the Group's case, the recoverable amount is based on the value in use. Where a full impairment assessment is required to support the carrying value of the assets held, management have determined the cash generating units and prepared discounted cash flows which include a number of estimates. The assumption which is deemed to be the most significant in these forecasts is in respect of the forecast cash flows of products. The long term growth and discount rate also include estimation uncertainty.	For finite life intangible assets, we reviewed the forecast financial performance of individual intangible assets and held discussions with management in respect of expected future market conditions to identify any potential indicators of impairment. We also considered external market factors and developments that could be indicative of an impairment trigger. In respect of indefinite lived intangibles and goodwill, and where an impairment trigger has arisen in respect of finite lived intangibles: • We considered management's determination of the cash generating units for assessing impairment; • Where an impairment model was used, we audited management's model and reperformed the calculations within the discounted cash flow forecasts; • The forecasts used for years 1 and 2 were agreed to the latest Board approved budgets; • Valuation specialists were utilised to benchmark, within a reasonable range, the discount rate assumptions to the cost of capital for other comparable companies; • We corroborated key assumptions in respect of growth rates to economic and industry data and challenged forecast margins based on historic actuals and expected developments in the Group; • We assessed the sufficiency of headroom through the performance of sensitivity analysis on key assumptions, confirming that an impairment is not reasonably possible; • Management's historical forecasting accuracy was also assessed across multiple previous years; and • We audited the disclosure note associated with the impairment review and confirmed that this was appropriate. Overall we found the assessment of the carrying value of intangible assets and associated disclosures to be appropriate and consistent with the evidence obtained.

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Key audit matter	How our audit addressed the key audit matter
Consideration of the impact of Covid-19 (Group & Company) Refer to the Going Concern statement on page 35 and the Viability statement on page 83 of the Strategic Report, note 1 (b) (Basis of preparation) and note (i) (Basis of preparation). The emergence of Coronavirus ('Covid-19') during 2020 has impacted all businesses, both financially and operationally. The Group has noted an impact through the continuation of the global pandemic, however this has been limited compared to other sectors. The key consideration in respect of Covid-19 that has not already been considered in the above key audit matters relates to the going concern status and viability of the Group. Management have performed a detailed assessment of the potential impact of Covid-19, specifically in respect of the preparation of the financial statements on a going concern basis. In performing their assessment, management have considered a variety of potential downside scenarios and have also considered possible mitigating actions which could be taken to provide additional headroom from both a liquidity and covenant compliance perspective. The outcome of management's assessment is that, in their view, it remains appropriate to prepare the Group and Company financial statements on a going concern basis.	We have evaluated management's base cash flows, including challenging key assumptions including forecast revenue and anticipated margins. We checked the integrity of management's models, as well as agreeing key underlying data to source documents. We assessed whether management's mitigating actions are reasonably achievable based on our understanding of the business, including the nature of its cost base. Finally, we obtained evidence to support disclosures within the financial statements and checked that the disclosures within the Annual Report are consistent with the financial statements and knowledge gained on the audit. Our conclusion in respect of going concern is included within the "Conclusions relating to going concern" section below.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group is structured along three segments being European Pharmaceuticals, North American Pharmaceuticals and Pharmaceuticals Research and Development, with each division set up to manage operations on both a regional and functional basis, consisting of a number of reporting units.

The Group financial statements are a consolidation of 57 active reporting units comprising the Group's operating businesses and centralised functions. These reporting units maintain their own accounting records and controls and report to the head office finance team in the UK.

Accordingly, of the Group's 57 active reporting units we identified 21 which, in our view, required a full audit of their complete financial information in order to ensure that sufficient audit evidence was obtained. The reporting units on which a full audit of their complete financial information was performed accounted for 89% of Group revenue, 82% of underlying operating profit and 89% of profit before tax. Of these reporting units, 3 were considered to be significant components due to their financial significance, being those units located in the USA, Germany and UK. In addition, we instructed one component audit team to perform specified procedures on one reporting unit.

The Group consolidation, financial statements disclosures and a number of centralised functions were audited by the Group engagement team at the head office. These included, but were not limited to, central procedures on treasury operations, UK and corporate taxation and goodwill and intangible asset impairment assessments. We also performed Group level analytical procedures on all of the remaining out of scope active reporting units to identify any unusual transactions. The Company was also subject to a full scope audit.

Where work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Consolidated Financial Statements. We issued formal written instructions to all component auditors setting out the audit work to be performed by each of them and maintained regular communication with the component auditors throughout the audit cycle. These interactions included attending certain component clearance meetings and holding regular conference calls, as well as reviewing and assessing any matters reported. The Group engagement team also reviewed selected audit working papers for certain component teams.

Due to the current restrictions on travel and social distancing measures, enacted as a response to the global pandemic, the group engagement leader and senior members of the Group engagement team used video conferencing to oversee the component auditor work and had video discussions with management of the 21 component locations (in 6 countries) in scope for an audit of their complete financial information. Senior team members also attended, via video conference, the clearance meetings for all components. During the clearance meetings, the findings reported by all component teams were discussed. The Group engagement team also evaluated the sufficiency of the audit evidence obtained through discussions with, and remote review of the audit working papers of, component teams.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	£4.8 million (2020: £3.8 million).	£3.2 million (2020: £3.1 million).
How we determined it	3% of underlying operating profit	0.5% of net assets
Rationale for benchmark applied	We believe the Group's principal measure of performance and earnings is underlying operating profit. Management uses this measure as it believes that it eliminates material non-operational items that may obscure the key trends and factors in determining the Group's operational performance. Furthermore it is this measure which represents the primary focus for management and key stakeholders.	The Company is the ultimate holding Company of the Dechra Group of Companies and with no trading activity, net assets is considered to be the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £0.07 million and £4.1 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £3.6 million for the Group financial statements and £2.4 million for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.2 million (Group audit) (2020: £0.2 million) and £0.2 million (Company audit) (2020: £0.2 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating management's detailed cash flow forecasts and both liquidity and covenant headroom under both base case and downside scenarios.
- Comparison of the going concern base case forecasts to Board approved forecasts and where applicable, we compared these forecasts for consistency to those used elsewhere in the business, including for impairment assessments. We also considered whether they were reasonable in light of previous performance, future expectations and management's track record of accurate forecasting.
- Reading the key terms of all committed debt facilities to understand any terms, covenants or undertakings that may impact the availability of the facility.
- Assessing there were no doubts over the ability of the Group to meet its debt covenants under both the base case and downside scenarios.
- Assessing the adequacy of disclosures in the going concern statement on page 35 and statements in note 1 of the Consolidated and Company financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

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In relation to the Directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report Other Disclosures ('Strategic Report and Directors' Report'), we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report Other Disclosures
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 30 June 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Directors' Remuneration
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate Governance statement
The Listing Rules require us to review the Directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Governance section is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The Directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The Directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The Directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the Directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The Directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the UK Corporate Governance Code, the Listing rules, Tax legislation, Employment regulation, Health and Safety legislation, and other legislation specific to the industries in which the Group operates (including Medicines & Healthcare products Regulatory Agency and U.S. Food & Drug Administration), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure to manipulate the financial performance of the business, and management bias in accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management, internal audit and the Group's legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Consideration of any changes to the control environment as a result of Covid-19;
- Review of internal audit reports;
- Reading key correspondence with regulatory authorities, such as the Medicines & Healthcare products Regulatory Agency;
- Enquiries with component auditors;
- Identifying and testing unusual journal entries which increase revenue or reduce expenditure to manipulate the financial performance of the business;
- Consideration of the policy for the recognition of revenue and performed substantive testing to ensure compliance with this policy; and
- Assessing key judgements and estimates made by management for evidence of inappropriate bias, in particular in respect of the key audit matters noted above. Details of our procedures in these areas are included in our key audit matters above.

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There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the Directors on 23 October 2015 to audit the financial statements for the year ended 30 June 2016 and subsequent financial periods. The period of total uninterrupted engagement is six years, covering the years ended 30 June 2016 to 30 June 2021.

Mark Skedgel (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
6 September 2021

Consolidated Income Statement

For the year ended 30 June 2021

	Note	2021 Underlying £m	2021 Non-underlying* (notes 3, 4 & 5) £m	2021 Total £m	2020 Underlying £m	2020 Non-underlying* (notes 3, 4 & 5) £m	2020 Total £m
Revenue	2	608.0	–	608.0	515.1	–	515.1
Cost of sales		(262.1)	–	(262.1)	(223.5)	–	(223.5)
Gross profit		345.9	–	345.9	291.6	–	291.6
Selling, general and administrative expenses		(151.3)	(73.8)	(225.1)	(134.9)	(70.4)	(205.3)
Research and development expenses		(32.4)	(4.4)	(36.8)	(28.4)	(5.7)	(34.1)
Operating profit	2	162.2	(78.2)	84.0	128.3	(76.1)	52.2
Finance income	3	–	3.8	3.8	3.0	–	3.0
Finance expense	4	(11.7)	(1.0)	(12.7)	(11.5)	(2.5)	(14.0)
Share of (loss)/profit of investments accounted for using the equity method	6	(0.4)	(0.7)	(1.1)	0.3	(0.6)	(0.3)
Profit before taxation	7	150.1	(76.1)	74.0	120.1	(79.2)	40.9
Income taxes	9	(32.5)	14.0	(18.5)	(24.7)	17.7	(7.0)
Profit for the year		117.6	(62.1)	55.5	95.4	(61.5)	33.9
Earnings per share							
Basic	11			51.33p			32.87p
Diluted	11			51.03p			32.76p
Dividend per share (interim paid and final proposed for the year)	10			40.50p			34.29p

* The Group presents a number of non-GAAP Alternative Performance Measures (APMs). This allows investors to understand better the underlying performance of the Group, by excluding non-underlying items as set out in note 5.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2021

	Note	**2021 £m**	2020 £m
Profit for the year		**55.5**	33.9
Other comprehensive (expense)/income:			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency cash flow hedges			
– fair value movements		**(1.7)**	0.1
Foreign currency translation differences for foreign operations		**(28.0)**	(7.1)
Income tax relating to components of other comprehensive (expense)/income	9	**(0.2)**	1.8
		(29.9)	(5.2)
Total comprehensive income for the period		**25.6**	28.7

Consolidated Statement of Financial Position

At 30 June 2021

	Note	2021 £m	2020 £m
ASSETS			
Non-current assets			
Intangible assets	12	**715.8**	692.2
Property, plant and equipment	13	**87.0**	76.4
Investments	6	**17.1**	17.4
Deferred tax assets	15	**2.0**	2.7
Total non-current assets		**821.9**	788.7
Current assets			
Inventories	16	**149.5**	120.8
Current tax receivables	20	**17.6**	6.8
Trade and other receivables	17	**106.7**	93.9
Cash and cash equivalents	18	**118.4**	227.4
Total current assets		**392.2**	448.9
Total assets		**1,214.1**	1,237.6
LIABILITIES			
Current liabilities			
Borrowings and lease liabilities	21	**(3.1)**	(4.6)
Trade and other payables	19	**(113.5)**	(98.2)
Contingent consideration	30	**(22.6)**	(8.9)
Current tax liabilities	20	**(16.6)**	(25.6)
Total current liabilities		**(155.8)**	(137.3)
Non-current liabilities			
Borrowings and lease liabilities	21	**(315.5)**	(350.4)
Contingent consideration	30	**(57.6)**	(47.3)
Provisions	22	**(3.5)**	(2.5)
Deferred tax liabilities	15	**(48.8)**	(62.6)
Total non-current liabilities		**(425.4)**	(462.8)
Total liabilities		**(581.2)**	(600.1)
Net assets		**632.9**	637.5
EQUITY			
Issued share capital	25	**1.1**	1.1
Share premium account		**411.6**	409.3
Hedging reserve		**–**	–
Foreign currency translation reserve		**(11.9)**	16.3
Merger reserve		**84.4**	84.4
Retained earnings		**147.7**	126.4
Total equity		**632.9**	637.5

The financial statements were approved by the Board of Directors on 6 September 2021 and are signed on its behalf by:

Ian Page
Chief Executive Officer
6 September 2021

Paul Sandland
Chief Financial Officer
6 September 2021

Company number: 3369634

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 30 June 2021

	Issued share capital £m	Share premium account £m	Hedging reserve £m	Foreign currency translation reserve £m	Merger reserve £m	Retained earnings £m	**Total equity £m**
Year ended 30 June 2020							
At 1 July 2019	1.0	277.9	–	21.6	84.4	124.2	**509.1**
Profit for the period	–	–	–	–	–	33.9	**33.9**
Foreign currency cash flow hedge – fair value movements	–	–	0.1	–	–	–	**0.1**
Foreign currency translation differences for foreign operations	–	–	–	(7.1)	–	–	**(7.1)**
Income tax relating to components of other comprehensive income/(expense)	–	–	–	1.8	–	–	**1.8**
Total comprehensive income/(expense)	–	–	0.1	(5.3)	–	33.9	**28.7**
Reclassified to cost of acquired intangibles	–	–	(0.1)	–	–	–	**(0.1)**
Transactions with owners:							
Dividends paid	–	–	–	–	–	(33.3)	**(33.3)**
Share-based payments	–	–	–	–	–	1.6	**1.6**
Shares issued	0.1	131.4	–	–	–	–	**131.5**
Total contributions by and distributions to owners	0.1	131.4	–	–	–	(31.7)	**99.8**
At 30 June 2020	1.1	409.3	–	16.3	84.4	126.4	**637.5**
Year ended 30 June 2021							
At 1 July 2020	1.1	409.3	–	16.3	84.4	126.4	**637.5**
Profit for the period	–	–	–	–	–	55.5	**55.5**
Foreign currency cash flow hedge – fair value movements	–	–	(1.7)	–	–	–	**(1.7)**
Foreign currency translation differences for foreign operations	–	–	–	(28.0)	–	–	**(28.0)**
Income tax relating to components of other comprehensive expense	–	–	–	(0.2)	–	–	**(0.2)**
Total comprehensive (expense)/income	–	–	(1.7)	(28.2)	–	55.5	**25.6**
Reclassified to cost of acquired intangibles	–	–	1.7	–	–	–	**1.7**
Transactions with owners:							
Dividends paid	–	–	–	–	–	(37.9)	**(37.9)**
Share-based payments	–	–	–	–	–	3.7	**3.7**
Shares issued	–	2.3	–	–	–	–	**2.3**
Total contributions by and distributions to owners	–	2.3	–	–	–	(34.2)	**(31.9)**
At 30 June 2021	1.1	411.6	–	(11.9)	84.4	147.7	**632.9**

Hedging Reserve

The hedging reserve represents the cumulative fair value gains or losses on derivative financial instruments for which cash flow hedge accounting has been applied, net of tax.

Foreign Currency Translation Reserve

The foreign currency translation reserve contains exchange differences on the translation of subsidiaries with a functional currency other than Sterling and exchange gains or losses on the translation of liabilities that hedge the Company's net investment in foreign subsidiaries.

Merger Reserve

The merger reserve represents the excess of fair value over nominal value of shares issued in consideration for the acquisition of subsidiaries where statutory merger relief has been applied in the financial statements of the Parent Company.

Consolidated Statement of Cash Flows

For the year ended 30 June 2021

	Note	2021 £m	2020 £m
Cash flows from operating activities			
Operating profit		84.0	52.2
Non-underlying items	5	78.2	76.1
Underlying operating profit		162.2	128.3
Adjustments for:			
Depreciation	13	11.0	9.9
Amortisation and impairment	2	4.5	4.3
Release of government grant		(0.6)	(0.5)
Loss on disposal of intangible assets	7	0.3	–
Equity settled share-based payment expense	26	2.8	1.5
Underlying operating cash flow before changes in working capital		180.2	143.5
Increase in inventories		(36.6)	(15.7)
(Increase)/decrease in trade and other receivables		(19.7)	6.9
Increase in trade and other payables		20.3	0.1
Cash generated from operating activities before interest, taxation and non-underlying items		144.2	134.8
Cash outflows in respect of non-underlying items		(3.0)	(7.3)
Cash generated from operating activities before interest and taxation		141.2	127.5
Interest paid		(7.7)	(7.8)
Interest on lease liabilities		(0.5)	(0.4)
Income taxes paid		(43.9)	(12.9)
Net cash inflow from operating activities		89.1	106.4
Cash flows from investing activities			
Proceeds from disposal of tangible assets		0.2	0.2
Proceeds from disposal of intangible assets		0.2	–
Interest received		–	0.3
Acquisition of subsidiaries (net of cash acquired)		(0.9)	(25.2)
Acquisition of investment in associates	6	(0.8)	(7.6)
Purchase of property, plant and equipment		(18.9)	(7.8)
Capitalised development expenditure		(1.3)	(1.3)
Purchase of other intangible non-current assets		(114.6)	(40.1)
Net cash outflow from investing activities		(136.1)	(81.5)
Cash flows from financing activities			
Proceeds from the issue of share capital		2.3	131.5
New borrowings		–	297.3
Expenses of raising borrowing facilities		–	(1.7)
Repayment of borrowings		(15.9)	(271.7)
Principal elements of lease payments		(3.6)	(3.2)
Dividends paid	10	(37.9)	(33.3)
Net cash (outflow)/inflow from financing activities		(55.1)	118.9
Net (decrease)/increase in cash and cash equivalents		(102.1)	143.8
Cash and cash equivalents at start of period	18	227.4	80.3
Exchange differences on cash and cash equivalents		(6.9)	3.3
Cash and cash equivalents at end of period	18	118.4	227.4
Reconciliation of net cash flow to movement in net borrowings			
Net (decrease)/increase in cash and cash equivalents		(102.1)	143.8
New borrowings and lease liabilities		(5.8)	(302.8)
Repayment of borrowings and lease liabilities		20.0	275.3
Expenses of raising borrowing facilities		–	1.7
Acquisition of subsidiary borrowings and lease liabilities		–	(0.1)
Changes in accounting policy for leases		–	(12.7)
Exchange differences on cash and cash equivalents		(6.9)	3.3
Retranslation of foreign borrowings		22.4	(6.3)
Other non-cash changes		(0.2)	(2.0)
Movement in net borrowings in the period		(72.6)	100.2
Net borrowings at start of period		(127.6)	(227.8)
Net borrowings at end of period	27	(200.2)	(127.6)

Cash conversion is defined as cash generated from operating activities before interest and taxation as a percentage of underlying operating profit.

Notes to the Consolidated Financial Statements

1. Accounting Policies

Dechra Pharmaceuticals PLC is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the United Kingdom. The address of its registered office is 24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA England. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below, these have been applied consistently in all years presented with the exception of the adoption of new accounting standards as outlined below.

(a) Statement of Compliance

In accordance with the Companies Act 2006 and European Union (EU) regulations, these consolidated financial statements have been prepared and approved by the Directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU. The Company has elected to prepare its Parent Company financial statements in accordance with FRS 101 and they are separately presented on pages 210 to 220.

(b) Basis of Preparation

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 12 to 83. The Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Refer to the Financial Review on page 35 for details. The consolidated financial statements are presented in Sterling, rounded to the nearest 0.1 million. They are prepared on a going concern basis and under the historical cost convention, except where IFRSs require an alternative treatment. The principal variations relate to derivative financial instruments, cash settled share-based transactions, contingent consideration and assets and liabilities acquired through business combinations that are stated at fair value. The preparation of consolidated financial statements in conformity with IFRSs requires the use of accounting estimates and for management to exercise its judgement in the process of applying the Group's accounting policies. These judgements and estimates are based on historical experience and management's best knowledge of the amounts, events or actions under review and the actual results may ultimately differ from these estimates. Areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are, where necessary, disclosed separately.

Critical Judgements in Applying the Group's Accounting Policies and Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, the Directors have made the following judgements and estimates where the actual outcome may differ from that calculated. The key judgements and key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing material adjustment to the carrying values of the assets and liabilities within the next financial year, are summarised below.

Area	Key judgements	Key sources of estimation uncertainty	Note reference	Accounting policy reference
Impairment of goodwill and indefinite life intangible assets	Determination of cash-generating units for assessing impairment		14	1(i)
Valuation of licensing agreements and associated contingent consideration		Timing, likelihood and quantum of future royalty cash flows and the determination of an appropriate discount rate	30	1(p)
Uncertain tax position	Assessment for uncertain tax positions satisfying the criteria for the recognition and measurement of provisions under IFRC 23	Assessment of expected amounts to settle the obligation	9	1(r)

1. Accounting Policies continued

Non-underlying Items

The Group presents a number of non-GAAP measures. This is to allow investors to understand the underlying performance of the Group, excluding items associated with areas such as: amortisation of acquired intangibles; downward remeasurement where there is not an intangible asset and accounting for the passage of time in respect of contingent considerations; expenses relating to acquisition and subsequent integration activities; rationalisation of the manufacturing organisation; loss on extinguishment of debt; and the revaluation of deferred tax balances following substantial tax legislation changes. Management utilise this measure to isolate the impact of exceptional, one-off or non-trading related items and consequently the classification of these items requires judgement. Further details can be found in note 5.

New Standards and Amendments to Standards or Interpretations

A number of amendments to IFRSs became effective for the financial year beginning on 1 July 2020. None of these standards had any impact on the Group's accounting policies and did not require retrospective adjustments.

(c) Basis of Consolidation

Subsidiary Undertakings

Subsidiary undertakings are fully consolidated from the date on which control is transferred to the Group. They cease to be consolidated from the date that the Group no longer has control. All subsidiary undertakings have been consolidated. Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation. The financial statements of all subsidiary undertakings are prepared to the same reporting date as the Company, with the exception of Genera Pharma d.o.o., Dechra Brasil Produtos Veterinarios LTDA and Dechra Produtos Veterinarios, S.A. de C.V. (all of which prepare local financial statements to 31 December each year, in line with local tax authority regulations).

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the change in net assets of the investee after the date of acquisition. Intangible assets identified as part of the notional purchase price allocation are amortised over the useful life of each asset, with the Group's share recognised as a charge in the income statement.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. Distributions received from an associate reduce the carrying amount of the investment.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to share of profit/(loss) of associates in the income statement.

Gains and losses resulting from upstream and downstream transactions between the Group and its associate are only recognised to the extent realised. Any unrealised gains or losses are eliminated, to the extent of the Group's interest in the associate. Accounting policies of associates have been aligned where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements
continued

1. Accounting Policies continued

(d) Foreign Currency Translation

(i) Functional and Presentational Currency

The consolidated financial statements are presented in Sterling, which is the Group's presentational currency, and are rounded to the nearest hundred thousand, except where it is deemed relevant to disclose the amounts to the nearest million. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

(ii) Foreign Currency Translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, with the exception of differences on transactions that are subject to effective cash flow hedges, which are recognised in other comprehensive income.

(iii) Foreign Operations

The income and expenses are translated to Sterling at the average rate for the period being reported. The assets and liabilities of foreign operations are translated to Sterling at the closing rate at the reporting date. Foreign currency differences on all translations are recognised in other comprehensive income in the foreign currency translation reserve, a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. On disposal of a foreign entity, accumulated exchange differences previously recognised in other comprehensive income are recognised in the income statement in the same period in which the gain or loss on disposal is recognised.

(e) Accounting for Financial Assets and Liabilities, Derivative Financial Instruments and Hedging Activities

Financial Assets

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Management determines the classification of its financial assets at initial recognition in accordance with IFRS 9, which defines three categories that debt instruments may be classified as, depending on the purpose for which the assets are held. These categories are:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); and
- Fair value through the profit and loss (FVPL).

Amortised cost relates to assets that are held for collection of contractual cash flows. Where those cash flows represent solely payments of principal and interest, they are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the income statement. All material financial assets of the Group are held at amortised cost.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Gains and losses (both realised and unrealised) arising from changes in the value of financial assets held at fair value through the income statement are included in the income statement in the period in which they arise.

Derivative Financial Instruments

The Group uses derivative financial instruments to manage its exposure to foreign exchange rate risks and interest rate risks. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are remeasured to fair value at each reporting date.

Cash Flow Hedges

Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognised in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised immediately in the income statement. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs.

Net Investment Hedge

For hedges of net investments in foreign operations, where the hedge is effective movements are recognised in other comprehensive income. Ineffectiveness is recognised in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

1. Accounting Policies continued

(e) Accounting for Financial Assets and Liabilities, Derivative Financial Instruments and Hedging Activities continued

Trade Receivables

Trade receivables are recorded at aggregate invoice value (including value added tax or other sales taxes) less loss allowances, which are calculated using the expected loss model. Where trade receivables contain a significant financing component, they are then carried at amortised cost using the effective interest rate method, less loss allowances. Other receivables are recorded at their transaction value.

The Group assesses, on a forward-looking basis, the expected credit losses associated with its trade and other receivables. The Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Where there is a specific risk surrounding a receivable then a credit loss allowance of 100% is applied.

Trade and Other Payables

Trade and other payables are initially recognised at fair value and subsequently at amortised cost.

Borrowings and Borrowing Costs

Borrowings are recognised initially at fair value net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has a right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs directly attributable to the acquisition, construction, or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(f) Property, Plant and Equipment

Owned Assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Land is not depreciated. Assets in the course of construction are not depreciated until the date the assets become available for use. The estimated useful lives are as follows:

• freehold buildings	25 years
• short leasehold buildings	period of lease
• motor vehicles	4 years
• plant and fixtures	3 to 15 years

The residual value, where significant, is reassessed annually.

(g) Intangible Assets

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries and associates. In respect of business acquisitions that have occurred before 1 July 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the separable assets, liabilities and contingent liabilities acquired.

Acquisitions after this date fall under the provisions of 'IFRS 3 Business Combinations'. For these acquisitions, transaction costs, other than share and debt issue costs, are expensed as incurred and subsequent adjustments to the fair value of consideration payable are recognised in the income statement.

Contingent consideration is measured at fair value based on an estimate of the expected future payments.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is allocated to cash generating units and is tested annually for impairment.

Notes to the Consolidated Financial Statements
continued

1. Accounting Policies continued
(g) Intangible Assets continued
Research and Development Costs
Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense is incurred.

The Group is also engaged in development activity with a view to bringing new pharmaceutical products to market. Due to the strict regulatory process involved, there is inherent uncertainty as to the technical feasibility of development projects often until regulatory approval is achieved, with the possibility of failure even at a late stage. The Group considers that this uncertainty means that the criteria for capitalisation are not met unless it is highly probable that regulatory approval will be achieved and the project is commercially viable. Internally generated costs of development are capitalised, once the criteria are met, in the consolidated statement of financial position unless those costs cannot be measured reliably or it is not probable that future economic benefits will flow to the Group, in which case the relevant costs are expensed to the income statement as incurred.

Where development costs are capitalised, the expenditure includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Acquired Intangible Assets
Intangible assets recognised as a result of a business combination are stated at fair value at the date of acquisition less accumulated amortisation and impairment losses. The Group has applied the optional concentration test in relation to the acquisition of *Osurnia* (refer to note 29).

Other Intangible Assets
Other intangible assets that are acquired by the Group are stated at cost (including future milestone and royalty payments as applicable) less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and other intangibles is recognised in the income statement as an expense is incurred.

Intangible Assets Subsequent Expenditure
Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates or extends the asset life. All other expenditure is expensed as incurred.

Amortisation
Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite or is otherwise stated below. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each consolidated statement of financial position date. Intangible assets are amortised from the date that they are available for use. Assets in the course of construction are not amortised until the date the assets become available for use.

The estimated useful lives are as follows:

• software	5 to 7 years
• capitalised development costs	5 to 10 years or period of patent
• patent rights	period of patent
• marketing authorisations	indefinite life or period of marketing authorisation
• product rights	10 to 18 years
• commercial relationships	7 years
• brand	3 to 10 years
• acquired capitalised development costs	5 to 15 years
• pharmacological process	10 years

The pharmacological process from the acquisition of Putney Inc. and capitalised developed technology from the acquisition of AST Farma B.V. and Le Vet Beheer B.V. are amortised on a reducing balance method at a rate of 20% over a 10 year life based on the expected profile of future cash flows. All amortisation on a reducing balance methodology is recognised within selling and general administrative expenses with the exception of that in respect of the pharmacological process which is recognised within research and development expenses.

1. Accounting Policies continued

(g) Intangible Assets continued

Amortisation continued

The amortisation of the intangible assets are classified as an administrative expense because they relate to the right to sell and distribute the product. Within the acquired intangibles the product rights encompass market authorisations, and the capitalised development costs encompass product authorisations subject to regulatory approval. The pharmacological process is classified as a research and development expense as it relates to the process of taking a product through to registration.

When considering the basis of amortisation for our acquired intangibles, we consider a number of factors: the different market conditions which surround the intangible; the age of the products within developed technology; and their corresponding place within the lifecycle of the product.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is determined on the first-in, first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(i) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(j) Impairment

The carrying amounts of the Group's assets are reviewed at each consolidated statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of assets is the greater of their fair value less cost to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each consolidated statement of financial position date and when there is an indication that the asset is impaired.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating units (group of units), and then to reduce the carrying amount of the other assets in the units (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Dividends Paid

Dividends are recognised in the period in which they are approved by the Company's shareholders or, in the case of an interim dividend, when the dividend is paid.

(l) Employee Benefits

Pensions

The Group operates a stakeholder personal pension scheme for certain employees. Obligations for contributions are recognised as an expense in the income statement as incurred.

Dechra Veterinary Products SAS and Dechra Veterinary Products BV participate in state-run pension arrangements. These are not considered to be material to the Group financial statements and are accounted for as defined contribution schemes, with contributions being recognised as an expense in the income statement as incurred.

Notes to the Consolidated Financial Statements
continued

1. Accounting Policies continued

(l) Employee Benefits continued

Share-based Payment Transactions

The Group operates a number of equity settled share-based payment programmes that allow employees to acquire shares in the Company. The Group also operates a Long Term Incentive Plan for Directors and Senior Executives.

The fair value of shares or options granted is recognised as an employee expense over the vesting period on a straight-line basis in the income statement with a corresponding movement to equity reserves. Fair values are determined by use of an appropriate pricing model and by reference to the fair value of the options granted. The amount to be expensed over the vesting period is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

At each consolidated statement of financial position date, the Group revises its estimates of the number of share incentives that are expected to vest. The impact of the revisions of original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity reserves, over the remaining vesting period.

The fair values of grants under the Long Term Incentive Plan have been determined using the Monte Carlo simulation model, as performed by a qualified third party valuation expert.

The fair values of options granted under all other share option schemes have been determined using the Black–Scholes option pricing model, as performed by a qualified third party valuation expert.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

National Insurance contributions payable by the Company on the intrinsic value of share-based payments at the date of exercise are treated as cash settled awards and revalued to market price at each consolidated statement of financial position date.

Bonus and Commission Payments

The Group operates sales incentives schemes for certain employees and third party sales representatives in particular territories. The related bonuses and commissions are accrued in line with the related sales revenues.

(m) Revenue Recognition

Revenue from the sale of goods is measured at the fair value of the consideration and excludes intra-group sales and value added and similar taxes. The primary performance obligation is the transfer of goods to the customer. Revenue from the sale of goods is recognised when control of the goods is transferred to the customer, at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods. Revenue from third party manufacturing consists principally of the production of goods to customer specification together with the provision of technical services. Revenues from third party manufacturing are recognised upon completion of the work order, either the completion and agreed delivery of the product, or upon full provision of the service.

As sales arrangements differ from time to time (for example by customer and by territory), each arrangement is reviewed to ensure that revenue is recognised when control of the goods have passed to the customer.

This review and the corresponding recognition of revenue encompasses a number of factors which include, but are not limited to the following:

- reviewing delivery arrangements and whether the buyer has accepted title – we recognise the revenue at the point at which full title has passed; and/or
- where distribution arrangements are in place, recognising when the goods pass to the third party customer (for example by reviewing insurance arrangements) and recognising revenue at the point at which title has passed.

Provision for rebates, returns, discounts and other variable consideration is reflected in the transaction price at the point of recognition to the extent that it is highly probable there will not be a significant reversal. The methodology and assumptions used to estimate rebates and returns are based on the most likely method of calculation. This is adjusted in light of contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using wholesaler and other third party analysis, and internally generated information.

1. Accounting Policies continued

(n) Leases

The Group leases various offices, warehouses, equipment and vehicles. Rental contracts are typically made for fixed periods of three to five years, but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Extension and Termination Options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable by both the Group and the respective lessor.

Measurement

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The lease liability is not materially sensitive to a reasonable change in discount rate and therefore will not represent a critical accounting estimate presented within the Annual Report.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short term leases are leases with a lease terms of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Notes to the Consolidated Financial Statements

continued

1. Accounting Policies continued

(o) Net Financing Costs

Net financing costs comprise interest payable on borrowings, unwinding of discount on provisions and deferred considerations measured at amortised cost, interest receivable on funds invested, gains and losses on hedging instruments that are recognised in the income statement (see accounting policy (e)) and gains or losses on the retranslation of financial assets and liabilities denominated in foreign currencies. Interest income is recognised in the income statement as it accrues. The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

(p) Contingent Considerations

The Group has adopted the financial liability model when accounting for contingent consideration in respect of licensing agreements. The estimated future amounts payable for contingent consideration are recorded on initial recognition at the present value of the future cash flow payable, discounted with an appropriate discount rate, with a corresponding intangible asset recorded. The unwind of the liability, reflecting discounting for the passage of time, is recognised within the income statement as a finance expense and calculated using a risk-free discount rate. Contingent considerations are remeasured at each reporting date and any downward remeasurement of the related liability is adjusted against the intangible, with any excess over the carrying value of the intangible recognised in the income statement. Any upwards remeasurement is recognised as an increase to the intangible asset.

(q) Provisions

Provisions for legal claims, dilapidations, environmental remediation, deferred rent and advanced grants for property, plant and equipment are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required on settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

(r) Basis of Charge for Taxation

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognised in the income statement except to the extent that it relates to a business combination or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the consolidated statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the consolidated statement of financial position liability method and represents the tax payable or recoverable on most temporary differences which arise between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes (the tax base). Temporary differences are not provided on: goodwill that is not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and do not arise from a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, and is based upon tax rates enacted or substantively enacted at the consolidated statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is not probable that the related tax benefit will be realised against future taxable profits. The carrying amounts of deferred tax assets are reviewed at each consolidated statement of financial position date.

In respect of uncertain tax positions, where an outflow of funds is believed to be probable and a reliable estimate of the outcome of the dispute can be made, management provides for its best estimate of the liability. Such provisions are measured using either the most likely outcome method, or the expected value method depending on management's judgement of which method better predicts the resolution of the uncertainty. The methodology will be reviewed in each case upon the receipt of any new information.

The estimated annual benefit of global intellectual property and innovation incentives is accounted for within current and deferred tax.

Current and deferred tax credits received in respect of share-based payments are recognised in the income statement to the extent that they do not exceed the standard rate of taxation on the income statement charge for share-based payments. Credits in excess of the standard rate of taxation are recognised directly in equity.

1. Accounting Policies continued

(s) Earnings per Share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the period. Diluted EPS is determined by adjusting the profit attributable to ordinary shareholders and the weighted average number of ordinary shares in issue for the effects of all potential dilutive ordinary shares, which comprise share options granted to employees.

The Group has also chosen to present an alternative EPS measure, with profit adjusted for non-underlying items. A reconciliation of this alternative measure to the statutory measure required by IFRS is given in the Financial Review on page 29. A breakdown of the non-underlying items is given in notes 3, 4 and 5.

2. Operating Segments

The Group has three reportable segments, as discussed below, which are based on information provided to the Board of Directors, which is deemed to be the Group's chief operating decision maker. Several operating segments which have similar economic characteristics have been aggregated into the reporting segments. In undertaking this aggregation, the assessment determined that the aggregated segments have similar products, production processes, customers and overall regulatory environments.

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

The North American Pharmaceuticals Segment consists of Dechra Veterinary Products US, Dechra Veterinary Products Canada, and Dechra Produtas Veterinarios (Mexico), which sells Companion Animal, Equine and Food producing Animal Products in those territories. The Segment also includes our manufacturing units based in Melbourne, Florida and Fort Worth, Texas. This Segment also includes third party manufacturing and other revenues from non-core activities.

The Pharmaceuticals Research and Development Segment includes all of the Group's pharmaceutical research and development activities. This Segment has no revenue. Reconciliation of reportable segment revenues, profit or loss and liabilities and other material items:

	2021 £m	2020 £m
Revenue by segment		
European Pharmaceuticals	**388.5**	323.5
NA Pharmaceuticals	**219.5**	191.6
	608.0	515.1
Underlying operating profit/(loss) by segment		
European Pharmaceuticals	**127.8**	100.0
NA Pharmaceuticals	**75.9**	63.7
Pharmaceuticals Research and Development	**(32.4)**	(28.4)
Underlying segment operating profit	**171.3**	135.3
Corporate and other unallocated costs	**(9.1)**	(7.0)
Underlying operating profit	**162.2**	128.3
Amortisation of acquired intangibles	**(75.2)**	(69.6)
Rationalisation of manufacturing organisation	**(1.6)**	(2.2)
Expenses relating to acquisitions and subsequent integration activities	**(1.4)**	(4.3)
Total operating profit	**84.0**	52.2
Finance income	**3.8**	3.0
Finance expense	**(12.7)**	(14.0)
Share of losses in investment accounted for using the equity method	**(1.1)**	(0.3)
Profit before taxation	**74.0**	40.9
Total liabilities by segment		
European Pharmaceuticals	**(137.5)**	(110.3)
NA Pharmaceuticals	**(60.5)**	(53.1)
Pharmaceuticals Research and Development	**(5.9)**	(5.1)
Segment liabilities	**(203.9)**	(168.5)
Corporate loans and revolving credit facility	**(302.7)**	(340.0)
Corporate accruals and other payables	**(9.2)**	(3.4)
Current and deferred tax liabilities	**(65.4)**	(88.2)
	(581.2)	(600.1)

Notes to the Consolidated Financial Statements

continued

2. Operating Segments continued

	2021 £m	2020 £m
Revenue by product category		
CAP	442.6	361.6
Equine	44.8	36.4
FAP	77.0	74.8
Nutrition	31.7	28.6
Other	11.9	13.7
	608.0	515.1
Additions to intangible non-current assets by segment (including through business combinations)		
European Pharmaceuticals	97.1	22.3
NA Pharmaceuticals	40.2	47.5
Pharmaceuticals Research and Development	0.1	0.4
Corporate and central costs	1.4	1.5
	138.8	71.7
Additions to Property, Plant and Equipment by segment (including through business combinations)		
European Pharmaceuticals	19.8	12.1
NA Pharmaceuticals	5.9	4.3
Pharmaceuticals Research and Development	0.4	0.7
Corporate and central costs	0.3	0.2
	26.4	17.3
Depreciation and amortisation by segment		
European Pharmaceuticals	67.1	64.1
NA Pharmaceuticals	22.4	18.5
Pharmaceuticals Research and Development	0.5	0.5
Corporate and central costs	0.7	0.7
	90.7	83.8
The total depreciation and amortisation charge is made up of the following:		
Non-underlying		
Amortisation – selling, general and administrative expenses	70.8	63.9
Amortisation – research and development expenditure	4.4	5.7
	75.2	69.6
Underlying		
Amortisation and impairment	4.5	4.3
Depreciation	11.0	9.9
	15.5	14.2

Geographical Information

The following table shows revenue based on the geographical location of customers and non-current assets based on the country of domicile of the entity holding the asset:

	2021 Revenue £m	2021 Non-current assets £m	2020 Revenue £m	2020 Non-current assets £m
UK	56.9	30.8	45.0	30.4
Germany	64.8	3.1	53.9	2.8
Rest of Europe	204.8	406.3	173.8	419.8
USA	206.5	215.2	181.9	213.2
Rest of World	75.0	166.5	60.5	122.5
	608.0	821.9	515.1	788.7

3. Finance Income

Underlying	2021 £m	2020 £m
Finance income arising from:		
– Cash and cash equivalents	–	0.1
– Foreign exchange gains	–	2.9
Underlying finance income	–	3.0

Non-underlying	2021 £m	2020 £m
Finance income arising from:		
– Foreign exchange gains on contingent consideration	3.8	–
Non-underlying finance income	3.8	–
Total finance income	3.8	3.0

4. Finance Expense

Underlying	2021 £m	2020 £m
Finance expense arising from:		
– Financial liabilities at amortised cost	8.3	11.1
– Lease liability interest	0.5	0.4
– Foreign exchange losses	2.9	–
Underlying finance expense	11.7	11.5

Non-underlying	2021 £m	2020 £m
Finance expense arising from:		
– Loss on extinguishment of debt	–	1.0
– Foreign exchange losses on contingent consideration	–	0.9
– Unwind of discount associated with contingent consideration	1.0	0.6
Non-underlying finance expense	1.0	2.5
Total finance expense	12.7	14.0

Notes to the Consolidated Financial Statements
continued

5. Non-underlying Items
Non-underlying items charged/(credited) comprise:

	2021 £m	2020 £m
Amortisation of acquired intangibles		
– classified within selling, general and administrative expenses	70.8	63.9
– classified within research and development expenses	4.4	5.7
Expenses relating to acquisitions and subsequent integration activities	1.4	4.3
Rationalisation of manufacturing organisation	1.6	2.2
Non-underlying operating loss items	78.2	76.1
Amortisation in relation to Medical Ethics Pty Ltd (net of tax)	0.7	0.6
Loss on extinguishment of debt	–	1.0
Foreign exchange (gains)/losses on contingent consideration	(3.8)	0.9
Unwind of discount associated with contingent consideration	1.0	0.6
Non-underlying loss before tax items	76.1	79.2
Tax on non-underlying loss before tax items	(16.6)	(18.0)
Revaluation of deferred tax balances following the change in the Dutch and UK tax rates	4.8	0.3
Release of fair value provision on acquisition	(2.2)	–
Non-underlying loss after tax items	62.1	61.5

Amortisation of acquired intangibles reflects the amortisation of the fair values of future cash flows recognised on acquisition in relation to the identifiable intangible assets acquired.

Expenses relating to acquisitions and subsequent integration activities represents costs incurred during the acquisition and integration of *Osurnia* (£1.3 million) and other product licensing agreements (£0.1 million).

Rationalisation of manufacturing organisation relates to the income statement cost associated with this strategic programme. Costs since the inception of the programme have been £8.7 million and the programme has now been completed in the current financial year.

The loss on extinguishment of debt in the prior year related to the acceleration of the amortisation of arrangement fees relating to the Term Loan on termination.

The revaluation of the deferred tax balances arises as a result of an increase in the Dutch and UK corporation tax rates from that previously enacted in the prior year. The £4.8 million charge in the current year predominantly arises from the change in the Dutch corporation tax rate which has been substantively enacted to remain at 25.0% (previously this was to reduce to 21.7% over the period to 2022).

During the year fair value corporation tax provisions on the acquisitions of Ampharmco LLC, Genera d.d. and AST Farma B.V./ Le Vet B.V. have been released.

6. Interests in Associate
(a) Losses in Associate
Set out below is the summarised financial information of Medical Ethics Pty Ltd for the year ended 30 June, which is accounted for using the equity method. This is not Dechra Pharmaceuticals PLC's share of the results.

	2021 £m	2020 £m
Revenue	3.5	0.7
Pre-tax profit/(loss) from continuing operations	0.6	(3.1)
Post-tax profit/(loss) from continuing operations	0.6	(1.3)

	2021 £m	2020 £m
Non-current assets	2.5	2.6
Current assets	3.1	2.5
	5.6	5.1
Non-current liabilities	–	–
Current liabilities	(0.3)	(0.3)
	(0.3)	(0.3)
Net assets of associate	5.3	4.8

6. Interests in Associate continued

(b) Interest in Associate

	2021 £m	2020 £m
1 July	17.4	10.1
Additions	0.8	7.6
Share of underlying (loss)/profit after tax	(0.4)	0.3
Share of amortisation of intangible asset identified on acquisition (net of tax)	(0.7)	(0.6)
30 June	17.1	17.4

On 5 February 2021 the Group acquired a further 1.5% of the issued share capital of Medical Ethics Pty Ltd for a total consideration of AUD1.5 million (£0.8 million). Following the acquisition the Group holds 49.5% of the issued share capital of Medical Ethics Pty Ltd, which is the holding company of Animal Ethics Pty Ltd. The increased shareholding to 49.5% of the issued share capital has not resulted in a change of control or accounting treatment of the entity. The company is incorporated in Australia, which is also the principal place of business. The registered address is c/o Level 3, 649 Bridge Road, Richmond, Victoria 3121, Australia. The company has share capital consisting solely of ordinary shares, which are directly owned by the Group. Medical Ethics Pty Ltd is a private company and there is no quoted market price available for its shares. There are no contingent liabilities relating to the Group's interest in the associate.

The Group's share of the loss arising from its investment in Medical Ethics includes the effect of harmonising the accounting policies and of amortising the fair value adjustments (net of tax), which are treated as non-underlying.

(c) Reconciliation of Summarised Financial Information Presented to the Carrying Amount of its Interest in Associates

	2021 £m	2020 £m
Opening interest in associate	5.8	1.5
Fair value of associate acquired	0.5	4.6
Post-tax (loss)/profit from continuing operations	(0.4)	0.3
Amortisation of notional intangible asset recognised on acquisition (net of tax)	(0.7)	(0.6)
Interest in associate	5.2	5.8
Goodwill	11.9	11.6
Carrying value of investment in associate	17.1	17.4

7. Profit Before Taxation

The following items have been included in arriving at profit before taxation of continuing operations:

	2021 £m	2020 £m
Cost of inventories recognised as an expense	203.1	171.1
Impairment of inventories included in above figure	8.8	1.4
Depreciation of property, plant and equipment		
– owned assets	7.0	6.6
– right-of-use assets	4.0	3.3
Amortisation of intangible assets	79.5	73.9
Impairment of intangible assets	0.2	–
Loss on disposal of intangible assets	0.3	–
Recognition/(release) of impairment of receivables	0.1	(0.4)
Lease rental payables in respect of low value assets	–	–
Underlying research and development expenditure as incurred	32.4	28.4
Auditors' remuneration	1.5	1.2
Analysis of total fees paid to the Auditors:		
Audit of these financial statements	0.8	0.6
Audit of financial statements of subsidiaries pursuant to legislation	0.6	0.5
Other assurance services – audit related assurance services*	0.1	0.1
Total fees paid to Auditors	1.5	1.2

* This includes £0.10 million (2020: £0.06 million) in relation to the review of the Half-Yearly Report.

Notes to the Consolidated Financial Statements
continued

7. Profit Before Taxation continued

During the prior year, a fire occurred at one of the Group's third party logistics provider locations in the Netherlands that resulted in inventory to the value of £6.4 million being destroyed and written off. The inventory write off was included in the impairment of inventories value above of £1.4 million and offset by amounts recovered through insurance proceeds of £5.3 million and a receivable from the insurers of £1.1 million with no impact on the Income Statement. In the current year the insurance claim has been fully settled.

8. Employees

The average numbers of staff employed by the Group during the year, which includes Directors, were:

	2021 Number	2020 Number
Manufacturing	639	656
Distribution	148	141
Sales and administration	1,158	1,053
Total	1,945	1,850

The costs incurred in respect of these employees were:

	2021 £m	2020 £m
Wages and salaries	98.8	86.7
Social security costs	12.3	11.1
Other pension costs	5.5	4.7
Share-based payments charge (see note 26)	3.7	1.5
Total	120.3	104.0

Related party transactions – the remuneration of key management was as follows:

	2021 £m	2020 £m
Short term employee benefits	6.1	5.5
Post-employment benefits	0.3	0.2
Share-based payments charge	1.3	0.7
	7.7	6.4

Key management comprises the Board and the Senior Executive Team. Details of the remuneration, shareholdings, share options, pension contributions and payments for loss of office of the Executive Directors are included in the Directors' Remuneration Report on pages 129 to 139.

The Group operates a stakeholder personal pension scheme for certain employees and contributed between 4% and 14% of pensionable salaries. The Group also participates in state-run pension arrangements for certain employees in Dechra Veterinary Products SAS and Dechra Veterinary Products BV. Total pension contributions amounted to £5.5 million (2020: £4.7 million).

9. Income Taxes

		2021 £m	2020 £m
Current tax	– UK corporation tax	2.8	3.5
	– overseas tax at prevailing local rates	26.8	18.2
	– adjustment in respect of prior years	(2.6)	(0.8)
Total current tax expense		27.0	20.9
Deferred tax	– origination and reversal of temporary differences	(14.5)	(14.5)
	– adjustment in respect of tax rates	4.8	1.4
	– adjustment in respect of prior years	1.2	(0.8)
Total deferred tax credit		(8.5)	(13.9)
Total income tax charge in the Consolidated Income Statement		**18.5**	7.0

The tax on the Group's profit before taxation differs from the standard rate of UK corporation tax of 19.0% (2020: 19.0%). The differences to this rate are explained below:

	2021 £m	2020 £m
Profit before taxation	74.0	40.9
Tax at 19.0% (2020: 19.0%)	14.1	7.8
Effect of:		
– expenses not deductible	1.8	1.4
– acquisition expenses	–	0.6
– research and development related tax credits	(0.3)	(0.4)
– patent box tax credits	(3.1)	(2.7)
– other incentives	(0.3)	(0.2)
– share of results in associates	–	(0.1)
– effects of overseas tax rates	2.9	(0.3)
– movement in unrecognised deferred tax	–	1.1
– adjustment in respect of prior years	(1.4)	(1.6)
– change in tax rates	4.8	1.4
Total income tax charge in the Consolidated Income Statement	**18.5**	7.0

Recurring items in the tax reconciliation include: research and development related tax credits and patent box incentives; expenses not deductible; and the share of results in associates. The effective tax rate is 25.0% (excluding non-underlying items the effective tax rate is 21.7%).

Tax Credit/(Charge) Recognised Directly in Equity

	2021 £m	2020 £m
Deferred tax on employee benefit obligations	–	–
Deferred tax on other equity movements	(0.2)	1.8
Tax recognised in Consolidated Statement of Comprehensive Income	**(0.2)**	1.8
Corporation tax on equity settled transactions	0.2	0.4
Deferred tax on equity settled transactions	0.7	(0.3)
Total tax recognised in Equity	**0.9**	0.1

On 15 September 2020, the Dutch Government submitted the 2021 tax plan, which included the reversal of the previously enacted rate reduction from 25% to 21.7%, which was due to be effective from 1 January 2021. As a result, the Dutch corporate income tax headline rate has remained at 25%, and Dutch deferred tax assets and liabilities as at 30 June 2021 have been recalculated accordingly.

UK Finance Bill 2021 was substantively enacted on 24 May 2021, which included the increase in main rate of UK corporation tax from 19% to 25%, effective 1 April 2023. UK deferred tax assets and liabilities as at 30 June 2021 have been recalculated accordingly, based on the Group's best estimate of the timing of the unwind of existing temporary differences.

At 30 June 2021, the Group held a current provision of £5.7 million (2020: £5.6 million) in respect of uncertain tax positions. The resolution of these tax matters may take many years. The range of reasonably possible outcomes within the next financial year is £2.1 million to £7.4 million.

Notes to the Consolidated Financial Statements
continued

9. Income Taxes continued
EU CFC Challenge
The Group continues to monitor developments in relation to EU State Aid investigations. On 25 April 2019, the EU Commission's final decision regarding its investigation into the UK's Controlled Foreign Company (CFC) regime was published. It concluded that the legislation up until December 2018 does partially represent State Aid. The Group considers that the potential amount of additional tax payable remains between £nil and £4.0 million depending on the basis of calculation and the outcome of HMRC's appeal to the EU Commission. Based on current advice, the Group does not consider any provision is required in relation to this investigation. This judgement is based on current interpretation of legislation and professional advice.

During the period, the Group received charging notices from HMRC under The Taxation (Post Transition Period) Bill for part of the exposure (£2.75 million) and has paid this to HMRC. As the Group considers that the appeal will be successful, the charging notices have been settled in full and a current tax receivable has been recorded in respect of the payment on the basis that the amount will be repaid in due course.

Future Tax Charge
The Group's future tax charge, and its effective tax rate could be affected by several factors including the impact of the implementation of the OECD's Base Erosion and Profit Shifting ('BEPS') actions, and changes in applicable tax rates and legislation in the territories in which it operates.

10. Dividends

	2021 £m	2020 £m
Final dividend paid in respect of prior year but not recognised as a liability in that year:		
24.00 pence per share (2020: 22.10 pence per share)	**25.9**	22.7
Interim dividend paid: 11.11 pence per share (2020: 10.29 pence per share)	**12.0**	10.6
Total dividend 35.11 pence per share (2020: 32.39 pence per share) recognised as distributions to equity holders in the period	**37.9**	33.3
Proposed final dividend for the year ended 30 June 2021: 29.39 pence per share (2020: 24.00 pence per share)	**31.8**	25.9
Total dividend paid and proposed for the year ended 30 June 2021: 40.50 pence per share (2020: 34.29 pence per share)	**43.8**	36.5

In accordance with IAS 10 'Events After the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2021 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 2022. There are no income tax consequences. The final dividend for the year ended 30 June 2020 is shown as a deduction from equity in the year ended 30 June 2021.

11. 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.

	2021 Pence	2020 Pence
Basic earnings per share		
– Underlying*	**108.77**	92.50
– Basic	**51.33**	32.87
Diluted earnings per share		
– Underlying*	**108.14**	92.19
– Diluted	**51.03**	32.76

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

	2021 £m	2020 £m
Earnings for underlying basic and underlying diluted earnings per share	**117.6**	95.4
Earnings for basic and diluted earnings per share	**55.5**	33.9

	Number	Number
Weighted average number of ordinary shares for basic earnings per share	**108,119,864**	103,133,142
Impact of share options	**630,725**	348,393
Weighted average number of ordinary shares for diluted earnings per share	**108,750,589**	103,481,535

* Underlying measures exclude non-underlying items as defined in note 1.

At 30 June 2021, there are 401,672 options (2020: 373,439) that are excluded from the EPS calculations as they are not dilutive for the period presented but may become dilutive in the future.

12. Intangible Assets

	Goodwill £m	Software £m	Development costs £m	Patent rights £m	Marketing authorisations £m	Acquired intangibles £m	Total £m
Cost							
At 1 July 2019	245.7	19.7	14.0	4.3	0.9	709.8	994.4
Additions	–	1.8	1.8	0.3	–	46.2	50.1
Acquisitions through business combinations	6.6	0.1	–	–	–	14.9	21.6
Remeasurement (note 30)	–	–	–	–	–	10.9	10.9
Foreign exchange adjustments	1.5	0.1	0.1	(0.1)	–	9.6	11.2
At 30 June 2020 and 1 July 2020	253.8	21.7	15.9	4.5	0.9	791.4	1,088.2
Additions	–	2.8	1.5	–	–	134.5	138.8
Disposals	–	(0.9)	(0.6)	–	–	–	(1.5)
Transfers between categories	–	–	(1.2)	–	1.2	–	–
Remeasurement (note 30)	–	–	–	–	–	4.9	4.9
Foreign exchange adjustments	(17.7)	(0.5)	(0.5)	(0.1)	–	(49.5)	(68.3)
At 30 June 2021	**236.1**	**23.1**	**15.1**	**4.4**	**2.1**	**881.3**	**1,162.1**
Accumulated Amortisation							
At 1 July 2019	–	6.1	8.5	3.3	–	295.9	313.8
Charge for the year	–	2.9	1.2	0.2	–	69.6	73.9
Foreign exchange adjustments	–	–	0.1	–	–	8.2	8.3
At 30 June 2020 and 1 July 2020	–	9.0	9.8	3.5	–	373.7	396.0
Charge for the year	–	3.2	0.6	0.2	0.3	75.2	79.5
Impairments	–	–	0.2	–	–	–	0.2
Disposals	–	(0.8)	(0.2)	–	–	–	(1.0)
Transfers between categories	–	–	(0.8)	–	0.8	–	–
Foreign exchange adjustments	–	(0.2)	(0.1)	(0.1)	(0.1)	(27.9)	(28.4)
At 30 June 2021	**–**	**11.2**	**9.5**	**3.6**	**1.0**	**421.0**	**446.3**
Net book value							
At 30 June 2021	**236.1**	**11.9**	**5.6**	**0.8**	**1.1**	**460.3**	**715.8**
At 30 June 2020	253.8	12.7	6.1	1.0	0.9	417.7	692.2

£0.8 million of the marketing authorisations relate to the Vetivex® range of products. Ownership of the marketing authorisations rests with the Group in perpetuity. There are not believed to be any legal, regulatory or contractual provisions that limit their useful lives. *Vetivex* is an established range of products which are relatively simple in nature and there are a limited number of players in the market. Accordingly, the Directors believe that it is appropriate that the marketing authorisations are treated as having indefinite lives for accounting purposes.

The software intangible asset includes £9.3 million relating to the ERP system in the EU Pharmaceuticals Segment; this has a remaining amortisation period of 4 years.

Goodwill is allocated across cash generating units that are expected to benefit from that business combination. Key assumptions made in this respect are given in note 14.

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12. Intangible Assets continued

In accordance with the disclosure requirements of IAS 38 'Intangible Assets', the components of acquired intangibles are summarised below:

	Commercial relationships £m	Pharmacological process £m	Brand £m	Capitalised development costs £m	Product rights £m	Total £m
Cost						
At 1 July 2019	6.8	51.4	16.3	393.6	241.7	709.8
Additions	–	–	–	–	46.2	46.2
Acquisitions through business combinations	1.9	–	–	13.0	–	14.9
Remeasurement	–	–	–	–	10.9	10.9
Foreign exchange adjustments	–	1.8	0.3	3.4	4.1	9.6
At 30 June 2020 and 1 July 2020	8.7	53.2	16.6	410.0	302.9	791.4
Additions	–	–	–	–	134.5	134.5
Remeasurement	–	–	–	–	4.9	4.9
Foreign exchange adjustments	(0.6)	(6.1)	(1.7)	(27.6)	(13.5)	(49.5)
At 30 June 2021	**8.1**	**47.1**	**14.9**	**382.4**	**428.8**	**881.3**
Accumulated Amortisation						
At 1 July 2019	3.7	27.9	6.1	104.3	153.9	295.9
Charge for the year	2.0	5.7	1.6	48.2	12.1	69.6
Foreign exchange adjustments	0.2	1.1	0.2	3.4	3.3	8.2
At 30 June 2020 and 1 July 2020	5.9	34.7	7.9	155.9	169.3	373.7
Charge for the year	1.8	4.4	1.4	42.3	25.3	75.2
Foreign exchange adjustments	(0.4)	(4.1)	(0.9)	(11.5)	(11.0)	(27.9)
At 30 June 2021	**7.3**	**35.0**	**8.4**	**186.7**	**183.6**	**421.0**
Net book value						
At 30 June 2021	**0.8**	**12.1**	**6.5**	**195.7**	**245.2**	**460.3**
At 30 June 2020	2.8	18.5	8.7	254.1	133.6	417.7

The table below provides further detail on the acquired intangibles and their remaining amortisation period.

Significant assets	Description of acquired intangibles	Goodwill carrying value £m	Acquired intangibles carrying value £m	Sub-Total carrying value £m	Remaining amortisation period on acquired intangibles
Intangible assets arising from the acquisition of Dermapet	Product, marketing and distribution rights	0.4	12.8	13.2	4 ½ years
Intangible assets arising from the acquisition of Eurovet	Technology, product, marketing and distribution rights	37.7	7.9	45.6	1 year
Goodwill arising from the acquisition of Vetxx		16.4	–	16.4	N/A
Intangible assets arising from the acquisition of Genera	Product, brand, technology, marketing and distribution rights		0.3		1 ½ years
			0.2		4 ½ years
			5.8		9 ½ years
		5.3		11.6	Genera – total
Intangible assets arising from the acquisition of Putney	Product, brand, technology, pharmacological process, marketing and distribution rights		4.4		5 years
			12.5		5 years
			33.1		7 years
		47.3		97.3	Putney – total

12. Intangible Assets continued

Significant assets	Description	Goodwill carrying value £m	Acquired Intangibles carrying value £m	Sub-Total carrying value £m	Remaining amortisation period on acquired intangibles
Intangible asset arising from the acquisition of Apex	Product and technology		11.3		12 years
			1.7		9 years
		8.7		21.7	Apex – total
Intangible assets related to the licensing and distribution of Tri-Solfen® (excluding ANZ territories)	Marketing and distribution rights	–	39.7	39.7	10 years
Intangible asset related to an injectable solution licensing agreement	Marketing and distribution rights	–	5.8	5.8	10 years
Intangible assets arising from the acquisition of AST Farma and Le Vet	Product, brand, technology, marketing and distribution rights		46.2		6 ½ years
			61.4		5 ½ years
			13.3		7 years
			0.8		1 ½ years
		98.7		220.4	AST Farma and Le Vet – total
Intangible assets related to an injectable solution licensing agreement	Marketing and distribution rights	–	5.6	5.6	15 years
Intangible assets arising from the acquisition of Caledonian	Product, brand, technology, marketing and distribution rights	0.8	2.9	3.7	7 ½ years
Intangible assets arising from the acquisition of Dechra Brasil Produtas Veterinarios LTDA	Product, brand, technology, marketing and distribution rights		6.6		7 ½ years
			0.3		2 ½ years
			0.3		5 ½ years
		8.3		15.5	Brazil – total
Intangible assets arising from the acquisition of Ampharmco	Product and technology rights		0.6		1 ½ years
			5.0		16 ½ years
			0.5		13 ½ years
			5.3		13 years
		5.8		17.2	Ampharmco – total
Intangible assets arising from the acquisition of *Mirataz*	Product and technology rights		37.9		8 ½ years
			7.2		9 ½ years
			0.9		9 ½ years
		–		46.0	Mirataz – total
Intangible assets arising from the acquisition of *Osurnia*	Product, marketing and distribution rights	–	96.5	96.5	9 years
Intangible assets related to the licensing and distribution of Tri-Solfen® (ANZ territories)	Product, marketing and distribution rights	–	24.5	24.5	10 years
Other individually immaterial goodwill and acquired intangibles		6.7	9.0	15.7	
		236.1	460.3	696.4	

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13. Property, Plant and Equipment

	Freehold land and buildings £m	Short leasehold buildings £m	Motor vehicles £m	Plant and fixtures £m	Total £m
Cost					
At 1 July 2019	46.9	4.2	0.4	49.3	100.8
Additions	0.1	3.4	2.0	8.4	13.9
Acquired through business combinations	1.9	0.1	–	1.4	3.4
Changes in accounting policy	–	9.2	3.1	0.4	12.7
Disposals	–	–	(0.2)	(1.4)	(1.6)
Foreign exchange adjustments	(0.8)	0.1	(0.1)	(0.6)	(1.4)
At 30 June 2020 and 1 July 2020	48.1	17.0	5.2	57.5	127.8
Additions	9.1	6.5	1.8	9.0	26.4
Disposals	–	(0.8)	(0.9)	(6.5)	(8.2)
Foreign exchange adjustments	(2.7)	(0.5)	(0.2)	(2.6)	(6.0)
At 30 June 2021	**54.5**	**22.2**	**5.9**	**57.4**	**140.0**
Accumulated Depreciation					
At 1 July 2019	14.5	3.0	0.2	24.7	42.4
Charge for the year	1.6	1.9	1.7	4.7	9.9
Disposals	–	–	(0.1)	(1.3)	(1.4)
Foreign exchange adjustments	0.1	0.1	–	0.3	0.5
At 30 June 2020 and 1 July 2020	16.2	5.0	1.8	28.4	51.4
Charge for the year	1.6	2.3	2.0	5.1	11.0
Disposals	–	(0.2)	(0.6)	(6.3)	(7.1)
Foreign exchange adjustments	(1.0)	(0.1)	(0.1)	(1.1)	(2.3)
At 30 June 2021	**16.8**	**7.0**	**3.1**	**26.1**	**53.0**
Net book value					
At 30 June 2021	**37.7**	**15.2**	**2.8**	**31.3**	**87.0**
At 30 June 2020	31.9	12.0	3.4	29.1	76.4
Net book value of right-of-use assets					
At 30 June 2021	**–**	**13.8**	**2.8**	**0.3**	**16.9**
At 30 June 2020	–	11.2	3.4	0.3	14.9
Depreciation charge of right-of-use assets					
2021	**–**	**1.9**	**2.0**	**0.1**	**4.0**
2020	–	1.6	1.6	0.1	3.3

	2021 £m	2020 £m
Contracted capital commitments	**0.7**	1.1
Assets in the course of construction included above	**13.3**	5.8

Included in additions are £7.5 million (2020: £5.5 million) of right-of-use assets.

14. Impairment Reviews

Goodwill and indefinite life assets are tested for impairment annually, or more frequently if there are indications that amounts might be impaired. The impairment tests involve determining the recoverable amount of the relevant asset or cash generating unit, which corresponds to the higher of the fair value less costs to sell or its value in use. In the Group's case, the recoverable amount is based on the value in use calculations.

Intangible and tangible assets that are being amortised are reviewed for indicators of impairment annually, and in the event that impairment indicators exist, a full value in use calculation is performed. A review was performed to establish that the carrying value of individual products capitalised are reflective of the projected cash flow generation and that no impairment indicators exist. No impairment was recognised on these assets.

Value in use calculations are performed by forecasting the future cash flows attributable to the asset being tested (or the relevant cash generating unit in respect of goodwill). The forecast cash flows are discounted at an appropriate rate as described below.

The cash flow forecasts are derived as follows:

- The latest available Board approved business plan for the first two years;
- The business plan is extrapolated by applying a growth rate for years three, four and five of 3.0% (2020: 3.0%) for Dechra Veterinary Products EU and Dechra Veterinary Products NA and 5.8% (2020: 9.5%) for Dechra Veterinary Products International; and
- Thereafter, a terminal value is calculated based on year five cash flows, and assuming a long term growth rate of 0% (2020: 0%) for Dechra Veterinary Products EU and Dechra Veterinary Products NA and 0.9% (2020: 1.2%) for Dechra Veterinary Products International.

The projections covered a period of five years as the Directors believe this to be the most appropriate timescale over which to review and consider annual performances before applying a fixed terminal value.

Value in use calculations were performed at 30 June 2021 for the following cash generating units:

		2021		
Cash generating unit	**Goodwill carrying value £m**	**Indefinite life assets carrying value £m**	**Total value £m**	**Pre-tax discount rate %**
Dechra Veterinary Products EU	**162.2**	**0.9**	**163.1**	**8.9**
Dechra Veterinary Products NA	**56.2**	**–**	**56.2**	**11.0**
Dechra Veterinary Products International	**17.7**	**–**	**17.7**	**12.4**
	236.1	**0.9**	**237.0**	

		2020		
Cash generating unit	Goodwill carrying value £m	Indefinite life assets carrying value £m	Total value £m	Pre-tax discount rate %
Dechra Veterinary Products EU	172.2	0.9	173.1	9.8
Dechra Veterinary Products NA	63.4	–	63.4	10.7
Dechra Veterinary Products International	18.2	–	18.2	13.8
	253.8	0.9	254.7	

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14. Impairment Reviews continued
Key Assumptions
The key assumptions implicit in the impairment review are those regarding the cash flows in the Board approved business plan, medium and long term growth rates and the discount rate.

The Board approved business plan incorporates a number of key input assumptions, most notably regarding market growth expectations, the competitive and legislative environments, lifecycle management, selling prices, product margins and direct costs. The assumptions applied in the business plan are based on past experience and the Group's expectation of future market changes and, where applicable, are consistent with external sources of information.

The medium and long term growth rates used (as set out above) reflect an estimate of expected future growth in the Group's markets, are no higher than those implicit in the Group's strategic planning process, and do not exceed the long term growth rates in the countries in which each CGU operates.

The pre-tax discount rates have been estimated using a market participant rate, which is adjusted after consideration of market information, and risk adjusted dependent upon the specific circumstances of each asset or cash generating unit.

Indications of Impairment
Indications of impairment were noted for certain finite lived intangible assets and an impairment assessment was performed which confirmed that the carrying value of the relevant assets continues to be supported by the recoverable value.

Sensitivity Analysis
Sensitivity analyses have been performed around the key assumptions for the impairment testing of goodwill and indefinite lived assets, and for any finite lived intangible assets where there was an indication of impairment, with the conclusion for both being that no reasonable changes in key assumptions would cause the recoverable amount to be materially less than the carrying value.

15. Deferred Taxes
(a) Recognised Deferred Tax Assets and Liabilities
Deferred tax assets and liabilities are analysed in the statement of financial position after offset, to the extent there is a legally enforceable right, of balances within countries as follows:

	2021 £m	2020 £m
Deferred tax assets	2.0	2.7
Deferred tax liabilities	(48.8)	(62.6)
	(46.8)	(59.9)

Deferred tax assets and liabilities are attributable to the following, prior to any allowable offset:

	Assets		**Liabilities**		**Net**	
	2021 £m	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Intangible assets	–	–	(51.1)	(62.4)	(51.1)	(62.4)
Property, plant and equipment	–	–	(3.7)	(4.0)	(3.7)	(4.0)
Inventories	0.9	1.4	–	–	0.9	1.4
Receivables/payables	4.1	3.2	–	–	4.1	3.2
Share-based payments	1.7	0.7	–	–	1.7	0.7
Losses	0.7	0.5	–	–	0.7	0.5
R&D tax credits	0.5	0.3	–	–	0.5	0.3
Employee benefit obligations	0.1	0.4	–	–	0.1	0.4
	8.0	6.5	(54.8)	(66.4)	(46.8)	(59.9)

(b) Unrecognised Deferred Tax
The aggregate amount of gross temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised is £2.5 million (2020: £1.2 million). The estimated unprovided deferred tax liability in relation to these temporary differences is £0.1 million (2020: £0.1 million).

Deferred tax assets in relation to losses amounting to £2.0 million (2020: £1.1 million) have not been recognised due to uncertainty over their recoverability. Included within unrecognised losses are £0.5 million of losses which expire prior to 2030. Other losses may be carried forward indefinitely.

15. Deferred Taxes continued

(c) Movements During the Year

	Balance at 1 July 2019 £m	Recognised in income £m	Acquired through business combinations £m	Recognised in equity/OCI £m	Foreign exchange adjustments £m	Balance at 30 June 2020 £m
Intangible assets	(75.9)	14.9	–	–	(1.4)	(62.4)
Property, plant and equipment	(3.8)	(0.1)	–	–	(0.1)	(4.0)
Inventories	1.8	(0.3)	–	–	(0.1)	1.4
Receivables/payables	1.4	–	–	1.8	–	3.2
Share-based payments	1.0	–	–	(0.3)	–	0.7
Losses	1.6	(1.0)	–	–	(0.1)	0.5
R&D tax credits	–	0.3	–	–	–	0.3
Employee benefit obligations	0.3	0.1	–	–	–	0.4
	(73.6)	13.9	–	1.5	(1.7)	(59.9)

	Balance at 1 July 2020 £m	Recognised in income £m	Acquired through business combinations £m	Recognised in equity/OCI £m	Foreign exchange adjustments £m	**Balance at 30 June 2021 £m**
Intangible assets	(62.4)	7.2	–	–	4.1	**(51.1)**
Property, plant and equipment	(4.0)	–	–	–	0.3	**(3.7)**
Inventories	1.4	(0.4)	–	–	(0.1)	**0.9**
Receivables/payables	3.2	1.2	–	(0.2)	(0.1)	**4.1**
Share-based payments	0.7	0.3	–	0.7	–	**1.7**
Losses	0.5	0.2	–	–	–	**0.7**
R&D tax credits	0.3	0.3	–	–	(0.1)	**0.5**
Employee benefit obligations	0.4	(0.3)	–	–	–	**0.1**
	(59.9)	8.5	–	0.5	4.1	**(46.8)**

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16. Inventories

	2021 £m	2020 £m
Raw materials and consumables	34.6	28.9
Work in progress	10.4	10.9
Finished goods and goods for resale	104.5	81.0
	149.5	120.8

Included in finished goods and goods for resale £nil (2020: £nil) of inventory held at net realisable value having been acquired through business combinations.

17. Trade and Other Receivables

	2021 £m	2020 £m
Trade receivables	88.2	79.4
Other receivables	13.4	11.1
Prepayments and accrued income	5.1	3.4
	106.7	93.9

18. Cash and Cash Equivalents

	2021 £m	2020 £m
Cash at bank and in hand	118.4	227.4

19. Trade and Other Payables

	2021 £m	2020 £m
Trade payables	35.2	34.6
Other payables	3.9	3.1
Other taxation and social security	4.8	7.4
Accruals	69.6	53.1
	113.5	98.2

20. Current Tax Assets and Liabilities

	2021 £m	2020 £m
Corporation tax receivable	17.6	6.8
Corporation tax payable	(16.6)	(25.6)
	1.0	(18.8)

21. Borrowings and lease liabilities

	2021 £m	2020 £m
Current liabilities:		
Lease liabilities	3.1	3.2
Bank loans	–	1.4
	3.1	4.6
Non-current liabilities:		
Lease liabilities	12.8	11.8
Senior loan notes	115.1	127.1
Bank loans	189.7	214.2
Arrangement fees netted off	(2.1)	(2.7)
	315.5	350.4
Total borrowings	318.6	355.0

At 30 June 2021, £189.7 million was drawn against the £340.0 million Revolving Credit Facility maturing 25 July 2024. The facility is not secured on any specific assets of the Group but is supported by a joint and several cross guarantee structure. Interest is charged on this facility at a minimum of 1.30% over LIBOR and a maximum of 2.20% over LIBOR, dependent upon the Leverage (the ratio of Total Net Debt to Adjusted EBITDA) of the Group. As at 30 June 2021, interest being charged on this facility is 1.50% above LIBOR. All covenants were met during the year ended 30 June 2021.

In January 2020, the Group undertook a Private Placement raising EUR50.0 million and USD100.0 million (under seven and ten year new senior secured notes respectively) which remains fully drawn at 30 June 2021. The Private Placement amounts are not secured on any specific assets of the Group, but are supported by a joint and several cross guarantee structure. Interest is charged on the EUR50.0 million amount at a fixed rate of 1.19% until maturity (January 2027). Interest is charged on the USD100.0 million amount at a fixed rate of 3.34% until maturity (January 2030).

No interest has been capitalised during the year (2020: £nil).

The borrowing facility of Genera of £4.6 million, of which £1.4 million was drawn at 30 June 2020, was fully repaid in March 2021 and the facility was closed.

The maturity of the bank loans and senior loan notes is as follows:

	2021 £m	2020 £m
Payable:		
Within one year	–	1.4
Between one and two years	–	–
Between two and five years	189.7	214.2
Over five years	115.1	127.1
	304.8	342.7

The maturity of the lease liabilities is as follows:

	2021 £m	2020 £m
Payable:		
Within one year	3.1	3.2
Between one and two years	2.5	2.5
Between two and five years	3.7	4.0
Over five years	6.6	5.3
	15.9	15.0

Further information on the interest profile of borrowings is shown in note 24.

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22. Provisions

	Deferred Rent £m	Provision for PPE grant £m	Environmental, Health & Safety Grant £m	Dilapidations £m	**Total £m**
At start of period	(0.4)	(1.4)	(0.3)	(0.4)	**(2.5)**
Provision recognised	–	–	–	(1.9)	**(1.9)**
Provision utilised	0.1	0.5	0.2	–	**0.8**
Foreign exchange differences	–	–	0.1	–	**0.1**
At end of period	(0.3)	(0.9)	–	(2.3)	**(3.5)**

The Group has received advanced payment for rental income on its facilities in Portland. This has been recognised at amortised cost and is being utilised over the period of the rental contract expiring in January 2025.

Genera has received advanced funding (PPE grant) for the refurbishment of the manufacturing facility for a third party manufacturing contract. The funding has been recognised at amortised cost and is being utilised over the life of the property, plant and equipment until 2025.

On the acquisition of Ampharmco, the Group established a fair value provision for dilapidations of a warehouse property. The provision will be utilised over the period to the expiry of the lease on 31 December 2022.

The Group established a fair value provision of £1.9 million for dilapidations of two warehouse properties in Skipton. In line with IFRS 16, the element of the provision that relates to reinstatement work as a result of alterations (£1.6 million) has been capitalised and will be depreciated over the lease term. The remaining amount (£0.3 million) has been expensed to the income statement. The respective provisions for the two buildings will be utilised over the period to the expiry of the lease in March 2025 and March 2030.

23. Employee Benefit Obligations

The defined benefit pension arrangements operated by the Netherlands, Germany and Croatia are unfunded: Jubilee awards of £0.3 million (2020: £0.3 million) for employees are recognised within other payables in the Consolidated Statement of Financial Position as at 30 June 2021.

24. Financial Instruments and Related Disclosures

The Group's financial instruments comprise private placements, bank loans and overdrafts, lease liabilities, derivatives used for hedging purposes and trade receivables and payables.

Treasury Policy

The Group reports in Sterling and pays dividends in Sterling out of the Group profits which are repatriated to Dechra Pharmaceuticals PLC through dividends. The role of the Group's treasury activities is to manage and monitor the Group's external and internal funding requirements and change to financing risks in support of the Group's corporate activities.

The Board of Directors has approved a policy which governs all treasury activities.

The Group uses a variety of financial instruments, including derivatives, to finance its operations and to manage market risks from these operations. Derivatives, principally comprising forward foreign currency contracts, foreign currency options and interest rate swaps, are used to hedge against changes in foreign currencies and interest rates. Hedges of net investments in foreign operations are also used in the management of foreign currency risk.

The Group does not hold or issue derivative financial instruments for speculative purposes and the Group's treasury policy specifically prohibits such activity. All transactions in financial instruments are undertaken to manage the risks arising from underlying business activities, not for speculation.

The Group actively manages its exposure to credit risk, reducing surplus cash balances wherever possible. This is part of the strategy to concentrate cash centrally as much as possible. The table below sets out the credit exposure to counterparties by rating for liquid investments, cash and cash equivalents and derivatives.

Credit ratings are assigned by Standard and Poor's and Moody's respectively. Where the opinions of the two rating agencies differ, the Group assigns the lower rating of the two to the counterparty. Where local rating agency or Fitch data is the only source available, the ratings are converted to global ratings equivalent to those of Standard and Poor's or Moody's using published conversion tables. These credit ratings form the basis of the assessment of the expected credit loss on Treasury-related balances held at amortised cost being bank balances and deposits.

24. Financial Instruments and Related Disclosures continued
Treasury Policy continued

	2021 £m	2020 £m
AA/Aa	10.5	7.4
A/A	105.1	218.2
BBB/Baa	1.3	1.3
BB/Ba and below/unrated	1.5	0.5
Total bank balances and deposits	118.4	227.4

The Group measures expected credit losses over cash and cash equivalents as a function of individual counterparty credit ratings and associated 12 month default rates. Expected credit losses over cash and cash equivalents are deemed to be immaterial and no such loss has been experienced during 2021.

Capital Management
The capital structure of the Group consists of net borrowings and shareholders' equity. At 30 June 2021, net borrowing was £200.2 million (2020: £127.6 million), whilst shareholders' equity was £632.9 million (2020: £637.5 million).

The Group maintains a strong capital base so as to maintain investors', creditors' and market confidence and to sustain future development of the business.

The Group manages its capital structure to maintain a prudent balance between debt and equity that allows sufficient headroom to finance the Group's product development programme and appropriate acquisitions. There were no changes in the Group's approach to capital management during the year.

The Group operates globally, primarily through subsidiary companies established in the markets in which the Group trades. The Group's operating subsidiaries are generally cash generative and none are subject to externally imposed capital requirements.

There are financial covenants associated with the Group's borrowings, which are interest cover (the ratio of underlying EBITDA to interest costs), and leverage (the ratio of total net debt to underlying EBITDA). The Group complied with these covenants in 2021 and 2020.

Operating cash flow is used to fund investment in the development of new products as well as to make the routine outflows of capital expenditure, tax, dividends and repayment of maturing debt.

The Group's policy is to maintain borrowing facilities centrally which are then used to finance the Group's operating subsidiaries, either by way of equity investments or intercompany loans.

Financial Risk Management
The Group has exposure to the following risks from its use of financial instruments:

- liquidity risk
- market risk
- credit risk

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk.

Notes to the Consolidated Financial Statements
continued

24. Financial Instruments and Related Disclosures continued

Liquidity Risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet liabilities as they fall due. Cash flows and covenants of the Group are monitored half-yearly. These are reviewed to ensure that sufficient financial headroom exists for at least a 12 month period.

The Group manages its funding requirements through the following lines of credit:

- £340.0 million multi-currency revolving credit facility;
- Private Placements in the amounts of USD100.0 million and EUR50.0 million; and
- £15.9 million lease liabilities;

The Group's borrowing facilities at 30 June 2021 are detailed in note 21.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates or interest rates, will affect the Group's income or the value of its holding of financial instruments.

Interest Rate Risk Management

The Group's borrowings bear interest at both floating rates linked to base rate or LIBOR and fixed rates, thereby reducing the exposure to cash flow interest rate risk.

Foreign Exchange Risk Management

Foreign currency transaction exposure arising on normal trade flows is not hedged. The Group matches receipts and payments in the relevant foreign currencies as far as practicable. To this end, bank accounts are maintained for all the major currencies in which the Group trades. Translational exposure in converting the income statements of foreign subsidiaries into the Group's presentational currency of Sterling is not hedged.

The Group hedges selectively expected currency cash flows outside normal trading activities. The Group has designated a US Dollar borrowing of $97.0 million as a net investment hedge of US Dollar net assets.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Group considers its maximum credit risk to be £101.6 million (2020: £90.5 million), which is the total carrying value of the Group's financial assets excluding cash and cash equivalents.

Our principal customers are pharmaceutical wholesalers and distributors. The failure of a large wholesaler could have a material adverse impact on the Group's financial results.

The largest customer of the Group sits within the NA Pharmaceuticals segment and accounted for approximately 13.3% of gross trade receivables at 30 June 2021 (2020: 21.4%). This customer accounted for 18.4% (2020: 20.0%) of total Group revenues. One other customer accounted for more than 10% of total Group revenues (2020: one).

All new customers are subject to a credit vetting process and existing customers will be subject to a review periodically. The vetting process and subsequent reviews involve obtaining information including audited financial statements, credit bureau reports, debt rating agency (e.g. Moody's, Standard & Poor's) reports and bank references.

Trade receivables consist of amounts due from a large number of customers, spread across geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The amount of information obtained is proportional to the level of exposure being considered. The information is evaluated quantitatively (i.e. credit score) and qualitatively (i.e. judgement) in conjunction with the customer's credit requirements to determine a credit limit.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

24. Financial Instruments and Related Disclosures continued

Fair Value of Financial Assets and Liabilities

The following table presents the carrying amounts and the fair values of the Group's financial assets and liabilities at 30 June 2021 and 30 June 2020. The following assumptions were used to estimate the fair values:

- Cash and cash equivalents – approximated to the carrying amount.
- Derivatives (interest rate swaps) – based upon the amount that the Group would receive or pay to terminate the instrument at the balance sheet date, being the market price of the instrument.
- Receivables and payables – approximated to the carrying amount.
- Borrowings, bank loans and overdrafts – based upon discounted cash flows using discount rates based upon facility rates.

Analysis of Financial Instruments

The financial instruments of the Group measured at amortised cost are analysed as follows:

	2021		2020	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets				
Financial assets measured at amortised cost				
– cash and cash equivalents	**118.4**	**118.4**	227.4	227.4
– trade receivables	**88.2**	**88.2**	79.4	79.4
– other receivables	**13.4**	**13.4**	11.1	11.1
Total financial assets	**220.0**	**220.0**	317.9	317.9
Financial liabilities				
Bank loans and overdrafts	**(189.7)**	**(189.7)**	(215.6)	(215.6)
Senior loan notes	**(115.1)**	**(110.7)**	(127.1)	(126.8)
Lease liabilities	**(15.9)**	**(15.9)**	(15.0)	(15.0)
Trade payables	**(35.2)**	**(35.2)**	(34.6)	(34.6)
Other payables	**(3.9)**	**(3.9)**	(3.1)	(3.1)
Accruals	**(69.6)**	**(69.6)**	(53.1)	(53.1)
Contingent consideration	**(80.2)**	**(80.2)**	(56.2)	(56.2)
Total financial liabilities	**(509.6)**	**(505.2)**	(504.7)	(504.4)
Net financial liabilities	**(289.6)**	**(285.2)**	(186.8)	(186.5)

Senior loan notes are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of borrowings is estimated by discounting contractual future cash flows (Level 2 as defined by IFRS 13).

Fair Value Hierarchy

The table below analyses the Group's financial instruments carried at fair value, by valuation method. Where possible, quoted prices in active markets are used (Level 1). Where such prices are not available, the asset or liability is classified as Level 2, provided all significant inputs to the valuation model used are based on observable market data. If one or more of the significant inputs to the valuation model is not based on observable market data, the instrument is classified as Level 3. There were no transfers between Level 1 and Level 2 during the year.

30 June 2021	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial instruments held at fair value through the profit and loss	**–**	**–**	**–**	**–**
Derivative financial liabilities	**–**	**–**	**–**	**–**
Contingent consideration	**–**	**–**	**(80.2)**	**(80.2)**
Total	**–**	**–**	**(80.2)**	**(80.2)**

30 June 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial instruments held at fair value through the profit and loss	–	–	–	–
Derivative financial liabilities	–	–	–	–
Contingent consideration	–	–	(56.2)	(56.2)
Total	–	–	(56.2)	(56.2)

Notes to the Consolidated Financial Statements
continued

24. Financial Instruments and Related Disclosures continued
Fair Value Hierarchy continued
Contingent consideration is recorded at fair value based on risk-adjusted future cash flows discounted using appropriate interest rates, which are reviewed annually. The inputs relating to future cash flows will include cash flows relating to the relevant contractual arrangements. Refer to note 4 for amounts recognised in the Consolidated Income Statement in the year. Quantified information about significant unobservable inputs is disclosed within note 30.

Credit Risk
The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for financial assets at amortised cost since the adoption of IFRS 9 at the start of the 2019 reporting period.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics, and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 months before 30 June 2021 and the corresponding historical losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The loss allowance provision as at 30 June 2021 and 30 June 2020 is determined as follows:

30 June 2021	**Not due £m**	**Past due (up to one month) £m**	**Past due (one to three months) £m**	**Past due (over three months) £m**	**Total £m**
Expected loss rate	**0.04%**	**0.04%**	**0.04%**	**75.0%**	
Gross carrying amount – trade receivables	**84.3**	**2.4**	**1.5**	**0.7**	**88.9**
Loss allowance	**–**	**–**	**–**	**0.2**	**0.2**
Specific loss allowance	**–**	**–**	**–**	**0.5**	**0.5**
Total loss allowance	**–**	**–**	**–**	**0.7**	**0.7**

30 June 2020	Not due £m	Past due (up to one month) £m	Past due (one to three months) £m	Past due (over three months) £m	Total £m
Expected loss rate	0.02%	0.02%	0.02%	75.0%	
Gross carrying amount – trade receivables	76.0	3.0	0.5	0.6	80.1
Loss allowance	–	–	–	0.1	0.1
Specific loss allowance	–	0.1	–	0.5	0.6
Total loss allowance	–	0.1	–	0.6	0.7

The movement in the loss allowances for trade debtors at 30 June 2021 reconcile to the opening loss allowances as follows:

	2021 £m	2020 £m
At start of period	**0.7**	1.1
Impairment provision recognised/(released)	**0.1**	(0.4)
Impairment provision utilised	**(0.1)**	–
At end of period	**0.7**	0.7

24. Financial Instruments and Related Disclosures continued

Liquidity Risk – Contracted Cash Flows of Financial Liabilities

The following table shows the cash flow commitments of the Group in respect of financial liabilities at 30 June 2021 and 30 June 2020. Where interest is at floating rates, the future interest payments have been estimated using current interest rates:

At 30 June 2021	Contingent consideration £m	Bank loans and senior loan notes £m	Lease liabilities £m	Trade, other payables and accruals £m	Total £m
Carrying value	(80.2)	(302.7)	(15.9)	(108.7)	(507.5)
Arrangement fees netted off	–	(2.1)	–	–	(2.1)
Future interest	(33.8)	(1.6)	(2.1)	–	(37.5)
Total committed cash flow	(114.0)	(306.4)	(18.0)	(108.7)	(547.1)
Payable:					
Within 6 months	(17.3)	(1.6)	(1.9)	(103.4)	(124.2)
Between 6 months and 1 year	(5.9)	–	(1.7)	(4.8)	(12.4)
Between 1 and 2 years	(7.1)	–	(2.7)	–	(9.8)
Between 2 and 3 years	(6.7)	–	(2.0)	(0.2)	(8.9)
Between 3 and 4 years	(11.1)	(25.0)	(1.6)	–	(37.7)
Between 4 and 5 years	(8.2)	(164.7)	(1.2)	–	(174.1)
Over 5 years	(57.7)	(115.1)	(6.9)	(0.3)	(180.0)
	(114.0)	(306.4)	(18.0)	(108.7)	(547.1)

At 30 June 2020	Contingent consideration £m	Bank loans and senior loan notes £m	Lease liabilities £m	Trade, other payables and accruals £m	Total £m
Carrying value	(56.2)	(340.0)	(15.0)	(90.8)	(502.0)
Arrangement fees netted off	–	(2.7)	–	–	(2.7)
Future interest	(27.6)	(2.1)	(2.3)	–	(32.0)
Total committed cash flow	(83.8)	(344.8)	(17.3)	(90.8)	(536.7)
Payable:					
Within 6 months	(4.5)	(2.7)	(2.1)	(85.3)	(94.6)
Between 6 months and 1 year	(5.0)	(0.8)	(1.6)	(5.4)	(12.8)
Between 1 and 2 years	(4.1)	–	(2.9)	(0.1)	(7.1)
Between 2 and 3 years	(9.6)	–	(1.9)	–	(11.5)
Between 3 and 4 years	(6.2)	–	(1.4)	–	(7.6)
Between 4 and 5 years	(5.3)	(214.2)	(1.1)	–	(220.6)
Over 5 years	(49.1)	(127.1)	(6.3)	–	(182.5)
	(83.8)	(344.8)	(17.3)	(90.8)	(536.7)

Notes to the Consolidated Financial Statements
continued

24. Financial Instruments and Related Disclosures continued

Foreign Currency Exposure

The Sterling equivalents of financial assets and liabilities denominated in foreign currencies at 30 June 2021 and 30 June 2020 were:

At 30 June 2021	Australian Dollar £m	Danish Krone £m	Euro £m	US Dollar £m	Other £m
Financial assets					
Trade receivables	0.2	–	9.3	0.8	2.6
Other receivables	–	–	1.2	1.4	–
Cash balances	2.1	0.5	48.3	16.9	8.5
	2.3	0.5	58.8	19.1	11.1
Financial liabilities					
Bank loans and overdrafts	–	–	(42.9)	(72.2)	–
Lease liabilities	–	–	(0.3)	–	–
Trade payables	–	–	(7.0)	(0.9)	(0.4)
Other payables	–	–	(1.5)	–	–
Accruals	(0.1)	–	(1.4)	(0.7)	(1.1)
Contingent consideration	(56.2)	–	(3.1)	(17.8)	–
	(56.3)	–	(56.2)	(91.6)	(1.5)
Net balance sheet exposure	(54.0)	0.5	2.6	(72.5)	9.6

At 30 June 2020	Australian Dollar £m	Danish Krone £m	Euro £m	US Dollar £m	Other £m
Financial assets					
Trade receivables	–	–	8.3	1.2	1.5
Other receivables	–	–	0.6	0.5	–
Cash balances	4.2	1.0	33.7	19.3	14.7
	4.2	1.0	42.6	21.0	16.2
Financial liabilities					
Bank loans and overdrafts	–	–	(47.0)	(97.8)	–
Lease liabilities	–	–	(0.3)	–	–
Trade payables	–	–	(7.3)	(1.0)	–
Other payables	–	–	(0.1)	–	–
Accruals	(0.1)	–	(2.7)	–	(1.0)
Contingent consideration	(33.0)	–	(5.9)	(16.4)	–
	(33.1)	–	(63.3)	(115.2)	(1.0)
Net balance sheet exposure	(28.9)	1.0	(20.7)	(94.2)	15.2

24. Financial Instruments and Related Disclosures continued

Sensitivity Analysis

Interest Rate Risk

A 2.0% increase in annual interest rates compared to those ruling at 30 June 2021 would reduce Group profit before taxation and equity by £3.9 million (2020: £5.2 million).

Foreign Currency Risk

The Group has significant cash flows and net financial assets and liabilities in US Dollar, Euro, Danish Krone and Australian Dollar. The Group does not hedge either economic exposure or the translation exposure arising from the profits of non-Sterling businesses. The Group is hedging certain foreign currency translations through the designation of a US Dollar loan as a net investment hedge of US Dollar net assets.

During 2021, the Group have been exposed to transactional and translational currency risk. In addition to the transactional loss of £2.9 million being recognised in the Consolidated Income Statement, £28.0 million foreign exchange loss translational impact was recognised in the Consolidated Statement of Comprehensive Income in the year.

As part of our acquisition strategy, the Group seek to balance the foreign exchange debt and related interest payable risk associated with non-Sterling acquisitions with the underlying related income and assets in foreign currencies.

The following table shows the impact on the Group's profit after taxation of a 10% appreciation of Sterling against each of these currencies compared to the rates prevailing at the year end date. In this analysis, only financial assets and liabilities held on the balance sheet at the year end are assessed and are only considered sensitive to foreign exchange rates where they are not in the functional currency of the entity that holds them. There is no impact on other equity reserves.

	Profit after taxation £m
Australian Dollar	(4.9)
Danish Krone	0.0
Euro	0.2
US Dollar	(0.2)

The sensitivities on the above represent the Directors' view of reasonably possible changes in each risk variable, not worst case scenarios or stress tests. The outputs from the sensitivity analysis are estimates of the impact of the effect of changes in market risks assuming that the specified changes occur at the year end and are applied to the risk exposures at that date. Accordingly, they show the impact on profitability and the balance sheet from such movements.

Actual results in the future may differ materially from these estimates due to commercial actions taken to mitigate any potential losses from such rate movements, to the interaction of more than one sensitivity occurring and to further developments in global financial markets. As such, this table should not be considered as a projection of likely future gains and losses.

25. Share Capital

	Ordinary shares of 1 pence each			
	2021		2020	
	£m	**Number**	£m	Number
Allotted, called up and fully paid at start of year	**1.1**	**108,010,960**	1.0	102,651,602
New shares issued	**0.0**	**204,363**	0.1	5,359,358
Allotted, called up and fully paid at end of year	**1.1**	**108,215,323**	1.1	108,010,960

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital. At the 2009 Annual General Meeting, the shareholders approved a resolution whereby all provisions relating to the Company's authorised share capital were removed from the Company's constitutional documents.

During the year, 204,363 new ordinary shares of 1 pence each (2020: 226,858 new ordinary shares of 1 pence each) were issued following the exercise of options under the Long Term Incentive Plan, the Approved, the Unapproved, SAYE and the ESPP share option schemes. The consideration received was £2,265,445 (2020: £981,083). The holders of ordinary shares are entitled to receive dividends as declared or approved at General Meetings from time to time and are entitled to one vote per share at such meetings of the Company.

In the prior year the Company issued 5,132,500 shares of 1 pence each by way of a placing at an issue price of 2600 pence per share on 8 June 2020. The placing generated gross proceeds of £133.4 million. The placing price of 2600 pence per share was a 5.3% discount to the closing middle market share price on 3 June 2020, being the date of the placing announcement.

Notes to the Consolidated Financial Statements
continued

26. Share-based Payments
During the year, the Company operated the Unapproved Share Option Scheme, the Approved Share Option Scheme, the Save As You Earn (SAYE) Share Option Scheme, the Long Term Incentive Plan 2017 and the Global SAYE Plan 2018 as described below:

Unapproved and Approved Share Option Schemes
Under these Schemes, options are granted to certain Executives and employees of the Group (excluding Executive Directors) to purchase shares in the Company at a price fixed at the average market value over the three days prior to the date of grant. For the options to vest, there must be an increase in basic earnings per share of at least 12% above the growth in the UK Retail Prices Index (RPI) over a three year period. Once vested, options must be exercised within ten years of the date of grant.

SAYE Option Scheme
This scheme is open to all UK employees. Participants save a fixed amount of up to £500 per month for either three or five years and are then able to use these savings to buy shares in the Company at a price fixed at a 20% discount to the market value at the start of the savings period. The SAYE options must ordinarily be exercised within six months of the completion of the relevant savings period. The exercise of these options is not subject to any performance criteria.

Long Term Incentive Plan 2017
(a) Long Term Incentive Plan Awards

Vesting is dependent on three performance conditions which must be satisfied over a three year performance period commencing from the start of the financial year within which the award is granted. One third of each award is subject to a performance condition based on the Company's TSR performance over the performance period relative to an appropriate comparator over the performance period. Two thirds of each award is subject to a performance condition based on the growth in the Group's underlying diluted EPS over the performance period. Both the TSR element and the EPS element are subject to an additional ROCE performance measure. Unless the Group's ROCE is 10% or more in the final year of the performance period, the awards will lapse in full regardless of TSR and EPS performance. For the purposes of this note they are detailed under the heading Long Term Incentive Plan.

(b) Qualifying LTIP Awards

In addition, awards can be structured as Qualifying LTIP Awards, consisting of a Company Share Option Plan (CSOP) option and a nil-cost LTIP award, with the ordinary award scaled back at exercise to take account of any gain made on exercise of the CSOP option. The Qualifying LTIP Awards are granted to the UK Senior Executive Team which includes the UK resident Executive Directors. The performance conditions are the same as those attached to the awards granted under Approved Share Option Schemes and Long Term Incentives Plan 2017. For the purposes of this note they are detailed under the heading Long Term Incentive Plan (Qualifying LTIP Awards).

(c) Market Value Options

Market value options may be granted under the LTIP 2017 as tax-advantaged CSOP options and as Unapproved share options. These options are granted to certain Executives and employees of the Group (excluding Executive Directors) to purchase shares in the Company at a price fixed at the average market value over the three days prior to the date of grant. For the options to vest, there must be an increase in underlying diluted earnings per share of at least 12% above the growth in the UK Retail Prices Index (RPI) over a three year period. Once vested, options must be exercised within ten years of the date of grant. For the purposes of this note they are detailed under the headings Unapproved and Approved Share Option Schemes.

Global SAYE Plan 2018
The Global SAYE Plan 2018 is an international share option plan, with two schedules, one of which is a UK SAYE Scheme and the other operates as a qualifying Employee Stock Purchase Plan for the benefit of employees in the USA. This scheme is currently open to all UK and USA employees. Participants save a fixed amount of up to £500 (or the USD equivalent) per month for either three years (UK scheme) or two years (USA Scheme). The employees are then able to use these savings to buy shares in the Company at a price fixed at a 10% discount to the market value at the start of the savings period. The SAYE options must ordinarily be exercised within six months of the completion of the relevant savings period. For USA employees, there is a 12 month holding period that applies. The exercise of these options is not subject to any performance criteria.

26. Share-based Payments continued

Year ended 30 June 2021

	Exercise Period	Exercise price per share Pence	At 1 July 2020 Number	Exercised Number	Granted Number	Lapsed Number	**At 30 June 2021 Number**
Unapproved Share Option Scheme							
16 September 2013†	2016–2023	721.00	3,000	(3,000)	–	–	–
11 September 2014†	2017–2024	763.00	5,000	(3,000)	–	–	**2,000**
15 September 2015†	2018–2025	975.00	17,457	(14,957)	–	–	**2,500**
19 September 2016†	2019–2026	1369.00	42,863	(23,663)	–	–	**19,200**
2 March 2018†	2020–2028	2506.00	93,139	(27,501)	–	(2,278)	**63,360**
26 October 2018	2021–2028	2166.00	114,036	–	–	(5,528)	**108,508**
6 September 2019	2022–2029	2964.00	133,929	–	–	(9,676)	**124,253**
22 September 2020	2023–2030	3237.00	–	–	152,011	(5,693)	**146,318**
			409,424	(72,121)	152,011	(23,175)	**466,139**
Approved Share Option Scheme							
15 September 2015†	2018–2025	975.00	923	(923)	–	–	**–**
19 September 2016†	2019–2026	1369.00	2,921	(921)	–	–	**2,000**
2 March 2018†	2021–2028	2506.00	7,993	(3,086)	–	–	**4,907**
26 October 2018	2021–2028	2166.00	2,906	–	–	–	**2,906**
6 September 2019	2022–2029	2964.00	8,071	–	–	(658)	**7,413**
22 September 2020	2023–2030	3237.00	–	–	7,989	(753)	**7,236**
			22,814	(4,930)	7,989	(1,411)	**24,462**
Long Term Incentive Plan							
2 March 2018†	2020–2021	–	26,958	(19,864)	–	(7,094)	**–**
26 October 2018	2021–2022	–	98,679	–	–	–	**98,679**
6 September 2019	2022–2023	–	84,662	(478)	–	–	**84,184**
22 September 2020	2023–2024	–	–	–	45,440	–	**45,440**
			210,299	(20,342)	45,440	(7,094)	**228,303**
Long Term Incentive Plan (Qualifying LTIP Awards)							
2 March 2018†	2021–2028	2506.00	5,136	(2,902)	–	(2,234)	**–**
2 March 2018†	2020–2021	–	49,217	(35,327)	–	(13,890)	**–**
1 March 2019†	2022–2029	2429.00	629	–	–	(629)	**–**
1 March 2019†	2022–2023	–	2,519	(2,519)	–	–	**–**
22 September 2020	2023–2030	3237.00	–	–	3,309	–	**3,309**
22 September 2020	2023–2024	–	–	–	42,562	–	**42,562**
			57,501	(40,748)	45,871	(16,753)	**45,871**
SAYE Option Scheme							
12 October 2015	2018–2021	792.00	15,373	(15,373)	–	–	**–**
13 October 2016	2019–2022	1095.00	3,831	–	–	–	**3,831**
12 October 2017	2020–2023	1646.00	56,202	(50,358)	–	(1,620)	**4,224**
29 November 2018	2021–2024	1974.00	27,710	(45)	–	(2,614)	**25,051**
			103,116	(65,776)	–	(4,234)	**33,106**
Global SAYE Plan 2018							
4 October 2019	2022–2023	2573.00	27,173	(358)	–	(2,877)	**23,938**
16 October 2019	2021–2022	2571.00	19,174	(81)	–	(3,270)	**15,823**
19 October 2020	2023–2024	2868.00	–	–	41,600	(2,417)	**39,183**
19 October 2020	2022–2023	2868.00	–	(7)	6,866	(768)	**6,091**
			46,347	(446)	48,466	(9,332)	**85,035**
Total			849,501	(204,363)	299,777	(61,999)	**882,916**
Weighted average exercise price			1338.99p	1144.13p	2227.09p	1759.30p	**1853.10p**

† Total share options exercisable at 30 June 2021 are 93,967.

Notes to the Consolidated Financial Statements
continued

26. Share-based Payments continued
Year ended 30 June 2020

	Exercise Period	Exercise price per share Pence	At 1 July 2019 Number	Exercised Number	Granted Number	Lapsed Number	**At 30 June 2020 Number**
Unapproved Share Option Scheme							
1 March 2010†*	2013–2020	418.81	2,177	–	–	(2,177)	–
16 September 2013†	2016–2023	721.00	3,000	–	–	–	3,000
11 September 2014†	2017–2024	763.00	7,000	(2,000)	–	–	5,000
15 September 2015†	2018–2025	975.00	18,983	(1,526)	–	–	17,457
18 March 2016†	2019–2026	1118.00	475	(475)	–	–	–
19 September 2016	2019–2026	1369.00	72,352	(26,489)	–	(3,000)	42,863
2 March 2018	2020–2028	2506.00	98,639	–	–	(5,500)	93,139
26 October 2018	2021–2028	2166.00	120,036	–	–	(6,000)	114,036
6 September 2019	2022–2029	2964.00	–	–	133,929	–	133,929
			322,662	(30,490)	133,929	(16,677)	409,424
Approved Share Option Scheme							
16 September 2013†	2016–2023	721.00	500	(500)	–	–	–
11 September 2014†	2017–2024	763.00	2,000	(2,000)	–	–	–
15 September 2015†	2018–2025	975.00	955	(32)	–	–	923
19 September 2016	2019–2026	1369.00	9,148	(6,227)	–	–	2,921
2 March 2018	2021–2028	2506.00	7,993	–	–	–	7,993
26 October 2018	2021–2028	2166.00	2,906	–	–	–	2,906
6 September 2019	2022–2029	2964.00	–	–	8,071	–	8,071
			23,502	(8,759)	8,071	–	22,814
Long Term Incentive Plan							
19 September 2016	2019–2020	–	143,969	(138,687)	–	(5,282)	–
2 March 2018	2020–2021	–	28,240	–	–	(1,282)	26,958
26 October 2018	2021–2022	–	98,679	–	–	–	98,679
6 September 2019	2022-2023	–	–	–	88,232	(3,570)	84,662
			270,888	(138,687)	88,232	(10,134)	210,299
Long Term Incentive Plan (Qualifying LTIP Awards)							
2 March 2018	2021–2028	2506.00	5,136	–	–	–	5,136
2 March 2018	2020–2021	–	49,217	–	–	–	49,217
26 October 2018	2021–2028	2166.00	1,350	–	–	(1,350)	–
26 October 2018	2021–2022	–	3,115	–	–	(3,115)	–
1 March 2019	2022–2029	2429.00	1,235	–	–	(606)	629
1 March 2019	2022–2023	–	4,940	–	–	(2,421)	2,519
			64,993	–	–	(7,492)	57,501
SAYE Option Scheme							
13 October 2014	2017–2020	614.00	13,419	(13,419)	–	–	–
12 October 2015	2018–2021	792.00	15,373	–	–	–	15,373
13 October 2016	2019–2022	1095.00	39,192	(34,413)	–	(948)	3,831
12 October 2017	2020–2023	1646.00	61,576	(759)	–	(4,615)	56,202
29 November 2018	2021–2024	1974.00	33,389	(331)	–	(5,348)	27,710
			162,949	(48,922)	–	(10,911)	103,116
Global SAYE Plan 2018							
4 October 2019	2022–2023	2573.00	–	–	30,073	(2,900)	27,173
16 October 2019	2021–2022	2571.00	–	–	20,632	(1,458)	19,174
			–	–	50,705	(4,358)	46,347
Total			844,994	(226,858)	280,937	(49,572)	849,501
Weighted average exercise price*			994.14p	432.32p	1498.16p	1117.27p	1338.99p

* Adjusted to reflect the bonus element of the Rights Issue — there has been no impact on the overall fair value of options in issue.
† Total share options exercisable at 30 June 2020 are 72,164.

26. Share-based Payments continued

The weighted average exercise price of options eligible to be exercised at 30 June 2021 was 2171.65p (2020: 1199.72p). For options exercised during the year, the weighted average market price at the date of exercise was 3435.95p (2020: 2777.57p). The weighted average remaining contractual lives of options outstanding at the Consolidated Statement of Financial Position date was 5.1 years (2020: 4.9 years).

Outstanding options on all Long Term Incentive, Approved and Unapproved plans prior to 30 June 2018 were exercisable at 30 June 2021. No options issued under SAYE plans were exercisable at 30 June 2021 (2020: nil).

The fair values for shares granted under the Unapproved, Approved and SAYE Option Schemes have been calculated using the Black–Scholes option pricing model. The fair values of shares awarded under the Long Term Incentive Plan have been calculated using a Monte Carlo simulation model which takes into account the market-based performance conditions attaching to those shares. The assumptions used in calculating fair value are as follows:

Unapproved and Approved Share Option Schemes

Date of grant	22/09/20	22/09/20	22/09/20	22/09/20	06/09/19	26/10/18 & 01/03/19
Holding period restriction	N/A	N/A	2 years	2 years	N/A	N/A
Number of shares awarded	794	9,578	308	618	8,071	6,876
Share price at date of grant	3164p	3164p	3164p	3164p	3036p	2188p
Exercise price	3237p	3237p	3237p	3237p	2964p	2166p
Expected life	3.02 years	3.02 years	3.02 years	3.02 years	6.5 years	6.5 years
Risk-free rate	-0.90%	0.00%	-0.90%	0.00%	0.31%	1.05%
Volatility	31.4%	31.4%	31.4%	31.4%	28%	28%
Dividend yield	N/A	1.1%	N/A	1.1%	1.00%	0.90%
Fair value per share	902p	993p	812p	894p	928p	596p

Long Term Incentive Plan 2017

Valuation date	22/09/20
Award date	22/09/20
Vesting date	30/06/23
Expected exercise	30/06/23

Type of awards	Standalone Nil-cost options		Conditional share awards		Nil-cost options (CSOP linked and standalone options)		Market value options
Holding period restriction	N/A		2 years		2 years		N/A
Number of awards at grant	10,556	21,114	3,434	6,869	15,342	30,687	152,011
Share price at date of grant	3164p	3164p	3164p	3164p	3164p	3164p	3164p
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil	3237p
Expected life	3.02 years	3.02 years	3.02 years	3.02 years	3.02 years	3.02 years	6.50 years
Risk-free rate	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%	0.00%
Volatility	31.4%	31.4%	31.4%	31.4%	31.4%	31.4%	31.4%
Dividend yield	N/A	1.1%	N/A	1.1%	N/A	1.1%	1.1%
Fair value per share	2353p	3062p	2118p	2756p	2118p	2756p	993p

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26. Share-based Payments continued

Long Term Incentive Plan 2017

Valuation date	06/09/19
Award date	06/09/19
Vesting date	30/09/22
Expected exercise	30/09/22

Type of awards	Standalone Nil-cost options		Conditional share awards		Nil-cost options (CSOP linked and standalone options)		Market value options
Holding period restriction	2 years		2 years		N/A		N/A
Number of awards at grant	11,696	23,391	3,661	7,323	14,053	28,108	133,929
Share price at date of grant	3036p	3036p	3036p	3036p	3036p	3036p	3036p
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil	2964p
Expected life	3.07 years	3.07 years	3.07 years	3.07 years	3.07 years	3.07 years	6.50 years
Risk-free rate	0.34%	0.34%	0.34%	0.34%	0.34%	0.34%	0.34%
Volatility	28.2%	28.2%	28.2%	28.2%	28.2%	28.2%	28.2%
Dividend yield	N/A	1.0%	N/A	1.0%	N/A	1.0%	1.0%
Fair value per share	1872p	2647p	1872p	2647p	2080p	2941p	928p

Long Term Incentive Plan 2017

Valuation date	26/10/18 & 01/03/19
Award date	26/10/18 & 01/03/19
Vesting date	30/09/21
Expected exercise	30/09/21

Type of awards	Standalone Nil-cost options		Conditional share awards		Nil-cost options (CSOP linked and standalone options)		Market value options
Holding period restriction	2 years		2 years		N/A		N/A
Number of awards at grant	23,919	47,838	4,815	9,629	15,374	30,748	130,209
Share price at date of grant	2188p	2188p	2188p	2188p	2188p	2188p	2188p
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil	2166p
Expected life	2.93 years	2.93 years	2.93 years	2.93 years	2.93 years	2.93 years	6.5 years
Risk-free rate	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	1.05%
Volatility	27.95%	27.95%	27.95%	27.95%	27.95%	27.95%	27.95%
Dividend yield	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%
Fair value per share	943p	1939p	943p	1939p	1036p	2131p	596p

26. Share-based Payments continued

Save As You Earn Option Scheme and Global SAYE Scheme

Date of grant	19/10/2020	19/10/2020	16/10/2019	04/10/2019	29/11/18	12/10/17	13/10/16
Number of shares awarded	41,600	6,866	20,632	30,073	34,527	73,108	52,877
Share price at date of grant	3474p	3474p	2626p	2736p	2136p	2175p	1370p
Exercise price	2868p	2868p	2571p	2573p	1974p	1646p	1095p
Expected life							
– two year scheme	–	2.0 years	2.0 years	–	–	–	–
– three year scheme	3.0 years	–	–	3.0 years	3.4 years	3.25 years	3.25 years
– five year scheme	–	–	–	–	5.4 years	5.25 years	5.25 years
Risk-free rate							
– two year scheme	–	-0.08%	0.52%	–	–	–	–
– three year scheme	-0.10%	–	–	0.25%	0.77%	0.54%	0.22%
– five year scheme	–	–	–	–	0.91%	0.79%	0.44%
Volatility							
– two year scheme	–	28.40%	32.10%	–	–	–	–
– three year scheme	31.80%	–	–	28.60%	27.94%	21.6%	22%
– five year scheme	–	–	–	–	25.09%	22.2%	24%
Dividend yield	1.00%	1.00%	1.20%	1.20%	0.95%	1.91%	1.51%
Fair value per share							
– two year scheme	–	758p	486p	–	–	–	–
– three year scheme	850p	–	–	504p	485p	551p	302p
– five year scheme	–	–	–	–	530p	587p	346p

Expected volatility was determined by calculating the historical volatility of the Group's share price over its entire trading history.

National Insurance contributions are payable by the Company in respect of some of the share-based payments. These contributions are payable on the date of exercise based on the intrinsic value of the share-based payments and are therefore treated as cash settled awards. The Group had an accrual at 30 June 2021 of £1.5 million (2020: £0.6 million), of which £0.3 million (2020: £0.1 million) related to vested options. The total charge to the Consolidated Income Statement within administrative expenses in respect of share-based payments was:

	2021 £m	2020 £m
Equity settled share-based transactions	**2.8**	1.5
Cash settled share-based transactions	**0.9**	–
	3.7	1.5

27. Changes in Net Debt

	At 1 July 2020 £m	Cash flows £m	New lease liabilities £m	Foreign exchange movements £m	Other non-cash movements £m	**At 30 June 2021 £m**
Cash and cash equivalents	227.4	(102.1)	–	(6.9)	–	**118.4**
Lease liabilities within one year	(3.2)	4.1	–	–	(4.0)	**(3.1)**
Bank loans within one year	(1.4)	1.4	–	–	–	**–**
Lease liabilities after one year	(11.8)	–	(5.8)	0.4	4.4	**(12.8)**
Bank loans and senior loan notes after one year	(338.6)	14.5	–	22.0	(0.6)	**(302.7)**
Net debt	(127.6)	(82.1)	(5.8)	15.5	(0.2)	**(200.2)**

Notes to the Consolidated Financial Statements
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28. Foreign Exchange Rates
The following primary exchange rates have been used in the translation of the results of foreign operations:

	Average rate for 2020	Closing rate at 30 June 2020	Average rate for 2021	Closing rate at 30 June 2021
Australian Dollar	1.8784	1.7913	1.8035	1.8476
Brazilian Real	5.6245	6.6986	7.2518	6.8819
Danish Krone	8.5080	8.1681	8.3981	8.6664
Euro	1.1396	1.0960	1.1287	1.1654
US Dollar	1.2601	1.2273	1.3466	1.3850

29. Acquisitions
Acquisition of Osurnia
On 27 July 2020, the Group completed the acquisition of the worldwide rights of the *Osurnia* product portfolio from Elanco Animal Health Incorporated for a total consideration of USD135.0 million (£106.5 million). The Group has adopted the amendments to IFRS 3 'Business Combinations' and applied the optional concentration test for this transaction. Accordingly, it has been concluded that substantially all the value arising from the transaction relates to the product rights which are recognised as an intangible asset. The total intangible asset recognised in relation to this acquisition is £106.5 million. A payment of £4.7 million was also made for inventory.

Prior Year Acquisitions
Following the acquisition of 100% of the share capital of Ampharmco LLC and its associated companies Dragon Fire Holdings LLC and Black Griffin Holdings LLC (collectively Ampharmco), together with its manufacturing site based in Fort Worth, Texas in August 2019, the disclosure of final fair values of the assets and liabilities acquired has been included in the financial statements for the year ended 30 June 2020.

30. Contingent Consideration Liabilities

	2021 £m	2020 £m
Contingent consideration – less than one year	22.6	8.9
Contingent consideration – more than one year	57.6	47.3
	80.2	56.2

The consideration for certain acquisitions and licensing agreements includes amounts contingent on future events such as development milestones or sales performance. The Group has provided for the fair value of this contingent consideration as follows:

	Tri-Solfen® £m	StrixNB® & DispersinB® £m	Injectable Solution 1 £m	Injectable Solution 2 £m	*Mirataz* £m	Phycox® £m	Other £m	Total £m
As at 1 July 2019	22.0	0.7	4.4	5.2	–	2.2	1.5	36.0
Additions	–	0.2	–	–	10.9	–	0.2	11.3
Remeasurement through intangibles	9.9	–	0.2	–	–	0.8	–	10.9
Cash payments: investing activities	–	(0.1)	(1.5)	(0.9)	–	(0.8)	(0.2)	(3.5)
Finance expense	0.4	–	0.1	0.1	–	–	–	0.6
Foreign exchange adjustments	0.7	–	0.1	–	–	0.1	–	0.9
At 30 June 2020	33.0	0.8	3.3	4.4	10.9	2.3	1.5	56.2
Additions	24.7	–	–	–	–	–	3.2	27.9
Remeasurement through intangibles	2.3	0.1	(0.6)	(2.3)	5.4	(0.1)	0.1	4.9
Cash payments: investing activities	(2.8)	(0.3)	(0.8)	(0.2)	(0.6)	(0.9)	(0.4)	(6.0)
Finance expense	0.6	–	–	–	0.1	0.1	0.2	1.0
Foreign exchange adjustments	(1.6)	–	(0.3)	(0.1)	(1.4)	(0.2)	(0.2)	(3.8)
At 30 June 2021	**56.2**	**0.6**	**1.6**	**1.8**	**14.4**	**1.2**	**4.4**	**80.2**

The table below shows on an indicative basis the sensitivity to reasonably possible changes in key inputs to the valuations of the contingent consideration liabilities. There will be a corresponding opposite impact on the intangible asset.

	Tri-Solfen®	StrixNB® & DispersinB®	Injectable Solution 1	Injectable Solution 2	*Mirataz*	Phycox®	Other
Increase/(decrease) in financial liability							
10% increase in royalty forecasts £m	3.5	0.1	N/A	N/A	1.4	0.1	0.2
10% decrease in royalty forecasts £m	(3.5)	(0.1)	N/A	N/A	(1.4)	(0.1)	(0.2)
1% increase in discount rates £m	(3.7)	–	–	–	(0.7)	–	(0.1)
1% decrease in discount rates £m	3.7	–	–	–	0.7	–	0.1
5% appreciation in currency £m	(2.7)	–	(0.1)	(0.1)	(0.7)	(0.1)	(0.2)
5% depreciation in currency £m	2.7	–	0.1	0.1	0.7	0.1	0.2
Discount rate range in 2021 financial year	0.0%–19.7%	10.4%–11.7%	9.2%	9.2%	7.5%–9.9%	10.4%	8.6%–10.4%
Discount rate range in 2020 financial year	2.5%–16.6%	10.1%–13.1%	9.2%	9.2%	6.8%–10.2%	10.1%	9.4%
Aggregate cash outflow in relation to royalties (remaining term of royalty agreement)							
2021 £m (years)	58.5 (10.0)	0.8 (6.0)	N/A	N/A	22.5 (9.5)	1.3 (2.5)	3.4 (10.0)
2020 £m (years)	50.6 (10.0)	1.1 (7.0)	N/A	N/A	17.6 (10.0)	2.8 (3.5)	N/A

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30. Contingent Consideration Liabilities continued

The consideration payable for Tri-Solfen® is expected to be payable over a number of years, and relates to development milestones and sales performance. During the year, the development milestones and sales performance royalties have been remeasured. On 5 February 2021, the Group entered into a licensing agreement with Animal Ethics Pty Ltd for the marketing authorisations of Tri-Solfen® in Australia and New Zealand for a total consideration of AUD31.0 million (£17.2 million) and sales performance royalties. At 30 June 2021, AUD26.0 million (£14.1 million) of the total consideration was not discounted given that settlement took place in July 2021. The remaining liability was discounted between 1.2% and 19.7%. The broad range of discount rates in respect of this licensing agreement reflects the commercial makeup of the arrangement, with discount rates for milestone payments related to regulatory approvals being lower and based on a cost of debt approach and those with more variability in timing and quantum of future cash flows being higher and based on a CAPM-based approach, also taking into account systematic risk associated with elements of the future cash flows.

The consideration payable for *Mirataz* relates to sales performance and is expected to be payable over a number of years.

The consideration payable for StrixNB® and DispersinB® is expected to be payable over a number of years, and relates to sales performance. During the year the contingent consideration has been remeasured based on management's best estimate of forecasted sales performance. An Addendum to the contract was agreed during the year for a development milestone and sales performance in the Brazilian market.

The consideration for two separate licensing agreements for injectable solutions both relate to development milestones. *Phycox* relates to sales performance and arose as part of the acquisition of the trade and assets of PSPC Inc. in 2014.

Where a liability is expected to be payable over a number of years the total estimated liability is discounted to its present value. With the exception of *Phycox*, all contingent consideration liabilities relate to licensing agreements.

31. Related Party Transactions

Subsidiaries

The Group's ultimate Parent Company is Dechra Pharmaceuticals PLC. A listing of subsidiaries is shown within the financial statements of the Company on pages 218 to 220.

Transactions with Key Management Personnel

The details of the remuneration, Long Term Incentive Plans, shareholdings, share options and pension entitlements of individual Directors are included in the Directors' Remuneration Report on pages 129 to 139. The remuneration of key management is disclosed in note 8.

Associates

On 5 February 2021, the Group entered into a licensing agreement with Animal Ethics Pty Ltd for the marketing authorisations of Tri-Solfen® in Australia and New Zealand for a total consideration of AUD31.0 million (£17.2 million). An upfront payment of AUD5.0 million (£2.8 million) was payable on signing, with the balance of the payment made in July 2021 on the first commercial sale by Dechra into the Australian market. A royalty will also be paid on net sales. The Group also acquired a further 1.5% of the issued share capital of Medical Ethics Pty Ltd, the parent company of Animal Ethics, for a total consideration of AUD1.5 million (£0.8 million) from the current shareholders. Following this acquisition the Group holds 49.5% of the issued share capital of Medical Ethics Pty Ltd, and this has not resulted in a change of control or accounting treatment of the entity. Refer to note 6 for further information on the results of the associate in the period.

In 2017 the Group entered into a licensing agreement with Animal Ethics Pty Ltd for Tri-Solfen® for which the fair value of associated contingent consideration is disclosed in note 30.

32. Off Balance Sheet Arrangements

The Group has no off balance sheet arrangements to disclose as required by S410A of the Companies Act 2006.

33. Contingent Liabilities

The Group continues to monitor developments in relation to EU State Aid investigations. On 25 April 2019, the EU Commission's final decision regarding its investigation into the UK's Controlled Foreign Company (CFC) regime was published. It concluded that the legislation up until December 2018 does partially represent State Aid. The Group considers that the potential amount of additional tax payable remains between £nil and £4.0 million depending on the basis of calculation and the outcome of HMRC's appeal to the EU Commission. Based on current advice, the Group does not consider any provision is required in relation to this investigation. This judgement is based on current interpretation of legislation and professional advice.

During the period, the Group received charging notices from HMRC under The Taxation (Post Transition Period) Bill for part of the exposure (£2.75 million) and has paid this to HMRC. As the Group considers that the appeal will be successful, the charging notices have been settled in full and a current asset has been recorded in respect of the payment on the basis that the amount will be repaid in due course.

At 30 June 2021, contingent liabilities arising in the normal course of business amounted to £13.0 million (2020: £11.4 million) relating to licence and distribution agreements. The stage of development of the projects underpinning the agreements dictates that a commercially stable product is yet to be achieved, and accordingly an intangible asset and a contingent consideration liability have not been recognised.

34. Subsequent Events

On 2 July 2021 the Group acquired the marketing rights to two anaesthesia products for an initial payment of USD1.25 million. A final payment of USD10.75 million will be made on 30 December 2021.

35. Underlying Operating Profit, EBITDA and Profit Before Taxation reconciliation

	2021 £m	2020 £m
Operating profit		
Underlying operating profit/EBIT is calculated as follows:		
Operating profit	84.0	52.2
Non-underlying operating expenses (note 5)	78.2	76.1
Underlying operating profit/EBIT	162.2	128.3
Depreciation	11.0	9.9
Amortisation and impairment	4.5	4.3
Underlying earnings before interest, tax, depreciation and amortisation (EBITDA)	177.7	142.5
Profit before taxation		
Underlying profit before taxation is calculated as follows:		
Profit before taxation	74.0	40.9
Non-underlying operating expenses	78.2	76.1
Amortisation of fair value adjustments relating to Medical Ethics (net of tax)	0.7	0.6
Fair value and other movements on contingent consideration	(2.8)	1.5
Loss on extinguishment of debt	–	1.0
Underlying profit before taxation	150.1	120.1

Company Statement of Financial Position

At 30 June 2021

	Note	**2021 £m**	2020 £m
Non-current assets			
Investments	iv	**758.9**	743.6
Intangible assets	v	**8.1**	9.3
Tangible assets	vi	**1.1**	1.2
		768.1	754.1
Current assets			
Trade and other receivables (includes amounts falling due after more than one year of £47.9 million (2020: £47.6 million))	vii	**91.1**	110.7
Cash at bank and in hand	viii	**82.0**	200.1
		173.1	310.8
Borrowings	x	**(0.2)**	(0.2)
Trade and other payables	ix	**(153.1)**	(267.3)
Net current assets		**19.8**	43.3
Total assets less current liabilities		**787.9**	797.4
Non-current liabilities			
Borrowings	x	**(138.8)**	(166.6)
Net assets		**649.1**	630.8
Equity			
Called up share capital	xii	**1.1**	1.1
Share premium account		**411.6**	409.3
Foreign currency translation reserve		**0.6**	0.6
Merger reserve		**82.6**	82.6
At 1 July		**137.2**	136.6
Profit for the year attributable to the owners		**50.2**	32.3
Other changes in retained earnings		**(34.2)**	(31.7)
Retained earnings		**153.2**	137.2
Total shareholders' funds		**649.1**	630.8

The financial statements were approved by the Board of Directors on 6 September 2021 and are signed on its behalf by:

Ian Page
Chief Executive Officer
6 September 2021

Paul Sandland
Chief Financial Officer
6 September 2021

Company number: 3369634

Company Statement of Changes in Shareholders' Equity

For the year ended 30 June 2021

	Called up share capital £m	Share premium account £m	Foreign currency translation reserve £m	Merger reserve £m	Retained earnings £m	Total shareholders' funds £m
Year ended 30 June 2020						
At 1 July 2019	1.0	277.9	0.6	82.6	136.6	498.7
Profit for the period	–	–	–	–	32.3	32.3
Total comprehensive income	–	–	–	–	32.3	32.3
Transactions with owners						
Dividends paid	–	–	–	–	(33.3)	(33.3)
Share-based payment charge	–	–	–	–	1.6	1.6
Shares issued	0.1	131.4	–	–	–	131.5
Total contributions by and distributions to owners	0.1	131.4	–	–	(31.7)	99.8
At 30 June 2020	**1.1**	**409.3**	**0.6**	**82.6**	**137.2**	**630.8**
Year ended 30 June 2021						
At 1 July 2020	1.1	409.3	0.6	82.6	137.2	630.8
Profit for the period	–	–	–	–	50.2	50.2
Total comprehensive income	–	–	–	–	50.2	50.2
Transactions with owners						
Dividends paid	–	–	–	–	(37.9)	(37.9)
Share-based payment charge	–	–	–	–	3.7	3.7
Shares issued	–	2.3	–	–	–	2.3
Total contributions by and distributions to owners	–	2.3	–	–	(34.2)	(31.9)
At 30 June 2021	**1.1**	**411.6**	**0.6**	**82.6**	**153.2**	**649.1**

Refer to the Group notes for dividend paid (note 10), share-based payment charge (note 26) and shares issued (note 25).

Notes to the Company Financial Statements

(i) Principal Accounting Policies of the Company

Accounting Principles

The separate financial statements of the Company have been prepared on a going concern basis, under the historical cost convention, in accordance with applicable UK accounting standards and the Companies Act 2006.

Basis of Preparation

The Directors opted to prepare the financial statements for the year ended 30 June 2021 in accordance with FRS 101 'Reduced Disclosure Framework' and the Companies Act 2006. The principal accounting policies applied in the preparation of these financial statements are set out below, and have been applied consistently.

No income statement is presented for the Company as permitted by Section 408(2) and (3) of the Companies Act 2006. The profit within the accounts of the Company was £50.2 million (2020: £32.3 million). The going concern of the Company is wholly interdependent on the going concern basis of the Group, which is considered in Note 1(b).

The following exemptions have been taken in preparing the financial statements:

a. The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payment', exempting the Company from preparing share based payment disclosures.
b. The requirements of IFRS 7 'Financial Instruments: Disclosures'
c. The following requirements of IAS 1:
   - Paragraphs 10(d) and 111, exempting the Company from providing a cash flow statement and information;
   - Paragraph 16, exempting the Company from providing a statement of compliance with all IFRSs;
   - Paragraph 38A, exempting the Company from the requirement for a minimum of two of each primary statement and the related notes;
   - Paragraph 38B to D, exempting the Company from the requirement to present additional comparative information; and
   - Paragraphs 134 to 136, exempting the Company from presenting Capital Management disclosures.
d. The requirements of IAS 7 ' Statement of Cash Flows', exempting the company from preparing a cash flow statement.
e. The requirements of paragraph 17 of IAS 24 'Related Party Disclosures', exempting the Company from disclosing details of all key management compensation.
f. The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions with wholly-owned members of the Group.
g. The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' exempting the company from disclosing the impact of new accounting standards that have been issued but are not yet effective.

Adoption of New and Revised Standards

A number of amendments to IFRSs became effective for the financial year beginning on 1 July 2020. None of these standards had any impact on the Company's accounting policies and did not require retrospective adjustments.

Investments

Investments held as fixed assets are stated at cost less any impairment losses. Where the consideration for the acquisition of a subsidiary undertaking includes shares in the Company to which the provisions of section 612 of the Companies Act 2006 apply, cost represents the nominal value of the shares issued together with the fair value of any additional consideration given and costs. Where investments are denominated in foreign currencies, they are treated as monetary assets and revalued at each year end date.

Intangible Assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight line basis over the estimated useful economic life of the asset. The estimated useful lives are:

• product rights	10 to 15 years
• software	5 to 7 years

Tangible Assets

Tangible assets are stated at cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight line basis over the estimated useful economic life of the asset. The estimated useful lives are:

• short leasehold buildings	period of lease
• motor vehicles	4 years
• plant and fixtures	3 to 15 years

(i) Principal Accounting Policies of the Company continued

Dividends

Dividends are recognised in the period in which they are approved by the Company's shareholders or, in the case of an interim dividend, when the dividend is paid. Dividends receivable from subsidiaries are recognised when either received in cash or applied to reduce a creditor balance with the subsidiary.

Interest-Bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Employee Benefits

(a) Pensions

The Company operates a Group stakeholder personal pension scheme for certain employees. Obligations for contributions are recognised as an expense in the income statement as incurred.

(b) Share-based Payment Transactions

The Company operates a number of equity settled share-based payment programmes that allow employees to acquire shares of the Company. The Company also operates Long Term Incentive Plans for Directors and Senior Executives.

The fair value of shares or options granted is recognised as an employee expense on a straight-line basis in the income statement with a corresponding movement in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares or options (the vesting period). The fair value of the shares or options granted is measured using a valuation model, taking into account the terms and conditions upon which the shares or options were granted. The amount recognised as an expense in the income statement is adjusted to take into account an estimate of the number of shares or options that are expected to vest together with an adjustment to reflect the number of shares or options that actually do vest except where forfeiture is only due to market-based conditions not being achieved.

The fair values of grants under the Long Term Incentive Plan have been determined using the Monte Carlo simulation model. The fair values of options granted under all other share option schemes have been determined using the Black–Scholes option pricing model.

National Insurance contributions payable by the Company on the intrinsic value of share-based payments at the date of exercise are treated as cash settled awards and revalued to market price at each statement of financial position date. Where the Company grants options over its own shares to the employees of its subsidiaries, it recharges the expense to those subsidiaries.

Foreign Currency

Foreign currency transactions are translated into Sterling using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities are translated at the closing rate at the reporting date. Foreign exchange gains and losses are recognised in the income statement.

Taxation

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for the UK, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Financial Guarantee Contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Amounts owed by Subsidiary Undertakings

Amounts owed by subsidiary undertakings are initially recognised at fair value and subsequently measured at this value less loss allowances, calculated using the three stage IFRS 9 model.

Notes to the Company Financial Statements
continued

(ii) Directors and Employees

Total emoluments of Directors (including pension contributions) amounted to £4.4 million (2020: £2.8 million). Information relating to Directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 129 to 139. Tony Griffin's remuneration is paid by Eurovet Animal Health B.V. in Euros but reported in Sterling for the purposes of these figures. The exchange rate used was 1.1287 (2020: 1.096).

	2021 Number	2020 Number
Administration	65	53
Total	65	53

The costs incurred in respect of these employees were:

	2021 £m	2020 £m
Wages and salaries	6.4	5.0
Social security costs	0.9	0.7
Other pension costs	0.3	0.2
Share-based payments charge (see note 26)	3.7	1.5
Total	11.3	7.4

The Group operates a stakeholder personal pension scheme for certain employees and contributed between 4% and 14% of pensionable salaries. Total pension contributions amounted to £0.3 million (2020: £0.2 million).

(iii) Profit Before Taxation

The following items have been included in arriving at profit before taxation of continuing operations:

	2021 £m	2020 £m
Depreciation of property, plant and equipment		
– owned assets	0.1	0.1
– right-of-use assets	0.2	0.2
Amortisation of intangible assets	2.6	2.2
Lease rental payables in respect of low value assets	–	–
Auditors' remuneration – audit of these financial statements	0.1	0.1

(iv) Investments

	Shares in subsidiary undertakings £m
Cost	
At 1 July 2020	755.8
Additions	237.5
Disposals	(222.2)
At 30 June 2021	**771.1**
Impairment	
At 1 July 2020	12.2
Charge for the period	–
At 30 June 2021	**12.2**
Net book value	
At 30 June 2021	**758.9**
At 30 June 2020	743.6

On 21 December 2021, the Company invested £15.3 million into the share capital of Eurovet Animal Health BV, a wholly owned subsidiary.

On 31 December 2021, the Company sold its shares in Eurovet Animal Health BV, Dechra Regulatory BV and Dechra Finance BV to Dechra Holdings Netherlands BV, in exchange for shares in Dechra Holdings Netherlands BV.

A list of subsidiary undertakings is given in note (xiii).

(v) Intangible Assets

	Product Rights £m	Software £m	Total Intangible assets £m
Cost			
At 1 July 2020	5.1	12.2	17.3
Additions	–	1.4	1.4
At 30 June 2021	**5.1**	**13.6**	**18.7**
Accumulated Amortisation			
At 1 July 2020	4.3	3.7	8.0
Charge for the year	0.5	2.1	2.6
At 30 June 2021	**4.8**	**5.8**	**10.6**
Net book value			
At 30 June 2021	**0.3**	**7.8**	**8.1**
At 30 June 2020	0.8	8.5	9.3

(vi) Tangible Assets

	Short leasehold buildings £m	Motor vehicles £m	Plant and fixtures £m	Total £m
Cost				
At 1 July 2020	1.0	0.3	0.7	2.0
Additions	–	0.2	–	0.2
At 30 June 2021	**1.0**	**0.5**	**0.7**	**2.2**
Accumulated Depreciation				
At 1 July 2020	0.2	0.1	0.5	0.8
Charge for the year	0.1	0.1	0.1	0.3
At 30 June 2021	**0.3**	**0.2**	**0.6**	**1.1**
Net book value				
At 30 June 2021	**0.7**	**0.3**	**0.1**	**1.1**
At 30 June 2020	0.8	0.2	0.2	1.2
Net book value of right-of-use assets				
At 30 June 2021	**0.7**	**0.3**	**–**	**1.0**
At 30 June 2020	0.8	0.2	–	1.0
Depreciation charge of right-of-use assets				
2021	**0.1**	**0.1**	**–**	**0.2**
2020	0.1	0.1	–	0.2

Included in additions are £0.2 million (2020: £0.2 million) of right-of-use assets.

Notes to the Company Financial Statements

continued

(vii) Trade and Other Receivables

	2021 £m	2020 £m
Amounts owed by subsidiary undertakings	84.8	104.7
Group relief receivable	2.5	3.8
Deferred taxation (see note (xi))	1.5	0.4
Other receivables	1.5	1.0
Prepayments and accrued income	0.8	0.8
	91.1	110.7

Included in debtors are amounts of £1.5 million (2020: £0.4 million) due after more than one year relating to deferred tax assets.

Of the amounts owed by subsidiary undertakings, £46.4 million is due after more than one year (2020: £47.2 million). This is made up of a balance of £0.9 million repayable in 2023 (interest of 1.5% above LIBOR), and a balance of £45.5 million repayable in 2027 (interest of 1.7%). The remaining amounts owed by subsidiary undertakings of £38.4 million is unsecured and repayable on demand. Of the £38.4 million, £29.0 million attracts interest of between 0.98% and 2.43% above LIBOR, with the remaining trade balance of £9.4 million being interest free. The provision for impairment against amounts owed by subsidiary undertakings is immaterial and has been considered in accordance with IFRS 9.

(viii) Cash at Bank and in Hand

	2021 £m	2020 £m
Cash at bank and in hand	82.0	200.1
	82.0	200.1

(ix) Trade and Other Payables

	2021 £m	2020 £m
Trade payables	1.3	1.2
Other payables	0.1	–
Amounts due to subsidiary undertakings	144.7	261.2
Other taxation and social security	–	0.2
Accruals and deferred income	7.0	4.7
	153.1	267.3

Amounts due to subsidiary undertakings are primarily unsecured and repayable on demand. £116.1 million attracts interest between 0.12% and 0.25% below LIBOR, the balance is interest free.

In accordance with IAS 10 ‘Events after the Balance Sheet Date’, the proposed final dividend for the year ended 30 June 2021 of 29.39 pence per share (2020: 24.00 pence per share) has not been accrued for in these financial statements. It will be shown in the financial statements for the year ending 30 June 2022. The total cost of the proposed final dividend is £31.8 million (2020: £25.9 million).

(x) Borrowings

	2021 £m	2020 £m
Borrowings due within one year		
Lease liabilities	0.2	0.2
Borrowings due after more than one year		
Aggregate bank loan and lease liabilities instalments repayable:		
– between one and two years	0.2	0.2
– between two and five years	25.2	41.5
– over five years	115.5	127.6
Arrangement fees netted off	(2.1)	(2.7)
	138.8	166.6
Total borrowings	139.0	166.8

(x) Borrowings continued

At 30 June 2021, £25.0 million was drawn against the £340.0 million Revolving Credit Facility maturing 25 July 2024 in the Company. Interest is charged on this facility at a minimum of 1.30% over LIBOR and a maximum of 2.20% over LIBOR, dependent upon the Leverage (the ratio of Total Net Debt to Adjusted EBITDA) of the Group. As at 30 June 2021, interest being charged on this facility is 1.50% above LIBOR.

In January 2020 the Company undertook a Private Placement raising EUR50.0 million and USD100.0 million (under seven and ten year new senior secured notes respectively) which remains fully drawn at 30 June 2021 amounting to £115.1 million. The Private Placement amounts are not secured on any specific assets of the Group, but are supported by a joint and several guarantee structure. Interest is charged on the EUR50.0 million amount at a fixed rate of 1.19% until maturity (January 2027). Interest is charged on the USD100.0 million amount at a fixed rate of 3.34% until maturity (January 2030).

No interest has been capitalised during the year (2020: £nil).

Contingent Liabilities

The Company guarantees certain borrowings of other Group companies under the above facilities, which at 30 June 2021 amounted to £164.7 million (2020: £174.3 million).

(xi) Deferred Tax

	£m
At 1 July 2020 (included in trade and other receivables)	0.4
Recognised in the income statement	0.4
Recognised in equity/OCI	0.7
At 30 June 2021 (included in trade and other receivables)	**1.5**

Deferred tax has been calculated using the rate of 19.0% or 25.0% based on the timing of when each individual deferred tax balance is expected to reverse in the future as follows (2020: 17.0% or 19.0%):

	2021 £m	2020 £m
Short term timing differences	1.7	0.7
Accelerated capital allowances	(0.2)	(0.3)
	1.5	0.4

Deferred tax assets in relation to losses amounting to £nil (2020: £nil) have not been recognised due to uncertainty over their recoverability.

(xii) Called up Share Capital

		Ordinary shares of 1p each
Issued share capital	£m	Number
Allotted, called up and fully paid at 1 July 2020	1.1	108,010,960
New shares issued	0.0	204,363
Allotted, called up and fully paid at 30 June 2021	**1.1**	**108,215,323**

Details of new ordinary shares issued following the exercise of options under the Long Term Incentive Plan and the Approved, Unapproved and SAYE Share Option Schemes are shown in notes 25 and 26 to the Consolidated Financial Statements.

Share Options

Details of outstanding share options over ordinary shares of 1 pence at 30 June 2021 under the various Group share option schemes are shown in note 26 to the Consolidated Financial Statements.

Notes to the Company Financial Statements
continued

(xiii) Subsidiary Undertakings
Operating Subsidiaries

Name	Country of Incorporation	Principal Activity	Registered Address	Shareholder
Ampharmco, LLC	USA	Manufacturer of veterinary pharmaceuticals	1401 Joel East Road, Fort Worth, TX76140-6003, United States	Dechra Holdings US Inc
AST Farma B.V.	The Netherlands	Marketer of veterinary pharmaceuticals and distributor of veterinary pharmaceuticals and equipment	Wilgenweg 7, 3421TV Oudewater, The Netherlands	Dechra Finance B.V.
Dechra Brasil Produtos Veterinarios LTDA	Brazil	Developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals	Travessa Dalva de Oliveira, 237, Industrias Leves, Londrina, Parana 86030-370, Brazil	AST Farma B.V.
Dechra Development LLC	USA	Contract regulatory and product development services for the Group	Principal Place of Business: 7015 College Blvd, Suite 510, Overland Park KS 66211, United States	Dechra Holdings US Inc
Dechra Limited	England and Wales	Developer, regulatory, product development, manufacturer and marketer of veterinary pharmaceuticals	Snaygill Industrial Estate, Keighley Road, Skipton, BD23 2RW, United Kingdom	Dechra Investments Limited
Dechra Finance Australia Limited	England and Wales	Financial services	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Limited
Dechra Finance B.V.	The Netherlands	Financial services and Holding Company	Pettelaarpark 38, 5216PD 's-Hertogenbosch, The Netherlands	Dechra Holdings Netherlands B.V.
Dechra Finance Ireland Designated Activity Company	Republic of Ireland	Financial services	6th Floor, 2 Grand Canal Square, Dublin 2, Ireland	Dechra Limited
Dechra Finance Limited	England and Wales	Financial services and Holding Company	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Pharmaceuticals PLC & Dechra Finance Sterling Limited
Dechra Finance Sterling Limited	England and Wales	Financial services	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Pharmaceuticals PLC
Dechra Regulatory B.V.	The Netherlands	Regulatory	Handelsweg 25, 5531AE Bladel, The Netherlands	Dechra Holdings Netherlands B.V.
Dechra Veterinary Products (Australia) Pty Limited	Australia	Developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals	2 Cal Close, Somersby NSW 2250, Australia	Dechra Holding Australia Pty Limited
Dechra Veterinary Products GmbH	Austria	Marketer of veterinary pharmaceuticals and pet diets	Hintere Achmhlerstrasse 1a, 6850 Dornbirn, Austria	Dechra Limited
Dechra Veterinary Products N.V.	Belgium	Marketer of veterinary pharmaceuticals and pet diets	Achterstenhoek 48 2275 Lille, Belgium	Eurovet Animal Health B.V.
Dechra Veterinary Products, Inc	Canada	Marketer of veterinary pharmaceuticals and pet diets	100 King Street West, Suite 6100, 1 First Canadian Place, Toronto ON M5X 1B8, Canada	Dechra Limited
Dechra Veterinary Products A/S	Denmark	Marketer of veterinary pharmaceuticals and pet diets	Mekuvej 9, DK-7171 Uldum, Denmark	Dechra Pharmaceuticals PLC
Dechra Veterinary Products Limited	England and Wales	Marketer of veterinary pharmaceuticals and pet diets	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Veterinary Products A/S
Dechra Veterinary Products Oy	Finland	Marketer of veterinary pharmaceuticals and pet diets	Linnoitustie 4, 02600 Espoo, Finland	Dechra Veterinary Products A/S
Dechra Veterinary Products SAS	France	Marketer of veterinary pharmaceuticals and pet diets	60 Avenue du Centre, 78180 Montigny le Bretonneux, France	Dechra Veterinary Products A/S
Dechra Veterinary Products Deutschland GmbH	Germany	Marketer of veterinary pharmaceuticals and distributor of veterinary pharmaceuticals and equipment	Hauptstr. 6-8, Aulendorf, Germany	Eurovet Animal Health B.V.
Dechra Veterinary Products S.r.l.	Italy	Marketer of veterinary pharmaceuticals and pet diets	Via Agostino da Montefeltro 2, 10134 Torino, Italy	Dechra Limited
Dechra Veterinary Products B.V.	The Netherlands	Marketer of veterinary pharmaceuticals and pet diets	Wilgenweg 7, 3421TV Oudewater, The Netherlands	Dechra Veterinary Products A/S

(xiii) Subsidiary Undertakings continued

Name	Country of Incorporation	Principal Activity	Registered Address	Shareholder
Dechra Veterinary Products NZ Limited	New Zealand	Marketer of veterinary pharmaceuticals and distributor of veterinary pharmaceuticals and equipment	Level 11, 41 Shortland Street, Auckland, 1010, New Zealand	Dechra Holding Australia Pty Limited
Dechra Veterinary Products AS	Norway	Marketer of veterinary pharmaceuticals and pet diets	Henrik Ibsens Gate 90, Postboks 2943 Solli, 0230 Oslo, Norway	Dechra Veterinary Products A/S
Dechra Veterinary Products Sp. z o.o.	Poland	Marketer of veterinary pharmaceuticals and pet diets	1st Floor, 61 Moldlinska Str., 03-199 Warsaw, Poland	Dechra Limited
Dechra Veterinary Products, S.L. Unipersonal	Spain	Marketer of veterinary pharmaceuticals and pet diets	Tuset 20, 6º, 08006, Barcelona, Spain	Dechra Veterinary Products A/S
Dechra Veterinary Products AB	Sweden	Marketer of veterinary pharmaceuticals and pet diets	Principal Place of Business: Stora Wäsby Orangeriet 3, Upplands Väsby, 194 37, Sweden	Dechra Veterinary Products A/S
Dechra Veterinary Products, LLC	USA	Marketer of veterinary pharmaceuticals and pet diets	Principal Place of Business: 7015 College Blvd, Suite 525, Overland Park KS 66211, United States	Dechra Holdings US Inc
Dechra Productos Veterinarios, S.A. de C.V. (Formerly Dechra-Brovel, S.A. de C.V.)	Mexico	Developer, regulatory and marketer of veterinary pharmaceuticals	Campus Corporativo Coyoacán Avenida Coyoacán número 1622 Colonia Del Valle C.P. 03100 Delegación Benito Juárez Ciudad de México, México	Dechra Limited
Eurovet Animal Health B.V.	The Netherlands	Holding Company, developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals	Handelsweg 25, 5531AE Bladel, The Netherlands	Dechra Holdings Netherlands B.V.
Genera d.d.	Croatia	Holding Company, developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals and crop protection	Svetonedeljska cesta 2, Kalinovica, 10436 Rakov Potok, Croatia	Eurovet Animal Health B.V.
Genera d.o.o Sarajevo	Bosnia and Herzegovina	Marketer of veterinary pharmaceuticals	Trg medunarodnog prijateljstva 10, 71000 Sarajevo, Bosnia and Herzegovina	Genera d.d.
Genera Pharma d.o.o.	Serbia	Marketer of veterinary pharmaceuticals	Gostivarska 70, Vozdovac, 11000 Beograd, Serbia	Genera d.d.
Genera Sl d.o.o	Slovenia	Marketer of veterinary pharmaceuticals	Parmova Ulica, Ljubljana, Slovenia	Genera d.d.
Le Vet. Beheer B.V.	The Netherlands	Holding Company	Wilgenweg 7, 3421TV Oudewater, The Netherlands	Dechra Finance B.V.
Le Vet. B.V.	The Netherlands	Marketer of veterinary pharmaceuticals	Wilgenweg 7, 3421TV Oudewater, The Netherlands	Le Vet Beheer B.V.

Notes to the Company Financial Statements
continued

(xiii) Subsidiary Undertakings continued
Other subsidiaries

Name	Country of Incorporation	Principal Activity	Registered Address	Shareholder
Arnolds Veterinary Products Limited	England and Wales	Non-trading	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Veneto Limited
Black Griffin Holdings, LLC	USA	Holding Company	1401 Joel East Road, Fort Worth TX TX 76140-6003, United States	Dechra Holdings US Inc
Broomco 4263 Limited	England and Wales	Non-trading	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Veneto Limited
Dales Pharmaceuticals Limited	England and Wales	Non-trading	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Veneto Limited
Dechra Holding Australia Pty Limited	Australia	Holding Company	2 Cal Close, Somersby NSW 2250, Australia	Dechra Limited
Dechra Holdings Brasil Ltda (merged with and into Dechra Brasil Produtos Veterinarios LTDA as of 18 January 2021)	Brazil	Holding Company	Travessa Dalva de Oilveira No. 237, office ADM I, Industrias Leves, Londrina, Parana 86030-370, Brazil	AST Farma B.V.
Dechra Holdings US Inc	USA	Holding Company	Principal Place of Business: 7015 College Blvd, Suite 525, Overland Park KS 66211, United States	Dechra Limited
Dechra Investments Limited	England and Wales	Holding Company	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Pharmaceuticals PLC
Dechra Holdings Netherlands B.V.	The Netherlands	Holding Company	Pettelaarpark 38, 5216PD ‘s-Hertogenbosch, Netherlands	Dechra Pharmaceuticals PLC
Dragon Fire Holdings, LLC	USA	Holding Company	1401 Joel East Road, Fort Worth TX TX 76140-6003, United States	Dechra Holdings US Inc
DermaPet, Inc	USA	Non-trading	Principal Place of Business: 7015 College Blvd, Suite 525, Overland Park KS 66211, United States	Dechra Veterinary Products LLC
Farvet Laboratories B.V.	The Netherlands	Non-trading	Handelsweg 25, 5531AE Bladel, The Netherlands	Eurovet Animal Health B.V.
Veneto Limited	England and Wales	Holding Company	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Pharmaceuticals PLC

Financial History

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Consolidated Income Statement					
Revenue	608.0	515.1	481.8	407.1	359.3
Underlying operating profit	162.2	128.3	127.4	99.2	81.3
Underlying profit after taxation	117.6	95.4	92.5	74.5	60.1
Underlying earnings per share					
– basic (pence)	108.77	92.50	90.24	76.85	64.68
– diluted (pence)	108.14	92.19	90.01	76.45	64.33
Dividend per share (pence)	40.50	34.29	31.60	25.50	21.44
Operating profit	84.0	52.2	39.0	34.1	33.2
Profit after taxation	55.5	33.9	30.9	36.1	26.1
Earnings per share					
– basic (pence)	51.33	32.87	30.15	37.24	28.09
– diluted (pence)	51.03	32.76	30.07	37.04	27.93
Consolidated Statement of Financial Position					
Non-current assets	821.9	788.7	750.0	769.4	453.1
Current assets	392.2	448.9	291.5	247.9	185.0
Current liabilities	(155.8)	(137.3)	(118.1)	(91.6)	(66.4)
Non-current liabilities	(425.4)	(462.8)	(414.3)	(420.7)	(269.1)
Shareholders' funds	632.9	637.5	509.1	505.0	302.6
Consolidated Statement of Cash Flows					
Net cash inflow from operating activities	89.1	106.4	81.8	64.0	77.4
Net cash outflow from investing activities	(136.1)	(81.5)	(61.9)	(241.7)	(57.2)
Net cash (outflow)/inflow from financing activities	(55.1)	118.9	(20.1)	193.8	1.6