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, 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.

(a) Statement of Compliance

These consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRSs) and IFRS Interpretations Committee (IFRS IC) as adopted by the European Union, and the Companies Act 2006 applicable to companies reporting under IFRS. The Company has elected to prepare its Parent Company financial statements in accordance with FRS 101 and they are separately presented on pages 160 to 168.

(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 8 to 61. 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 Corporate Governance Report on page 72 for details.

The consolidated financial statements are presented in Sterling, rounded to the nearest thousand, or rounded to the nearest million in the commentary to the notes. They are prepared on a going concern basis and under the historical cost convention, except where IFRS 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.

In the preparation of the financial statements, comparative amounts have been restated to reflect the hindsight adjustments made on the provisional Putney and Brovel acquisition accounting adjustments. Hindsight adjustments have been made to goodwill, intangibles, deferred tax, receivables and payables.

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 that have the most significant effect on the amounts recognised in the financial statements. The key sources of estimation uncertainty which may cause a material adjustment to the carrying amount of assets and liabilities are also discussed below.

(i) Impairment of Goodwill and Indefinite Life Intangible Assets

The Group determines whether goodwill and indefinite life assets are impaired at least on an annual basis or whenever there is an indication of impairment. This requires an estimation of the value in use of the cash generating units to which they are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further detail on the assumptions used in determining value in use calculations is provided in note 14.

(ii) Valuation of Intangible Assets

Product rights, commercial relationships and brand intangibles that are acquired by the Group as part of a business combination are stated at fair value at the date of acquisition less accumulated amortisation and impairment losses. Fair value at the date of acquisition reflects management's judgement of the fair value of the individual intangible asset calculated by reference to the net present value of future benefits accruing to the Group from the utilisation of the asset, discounted at an appropriate discount rate. Other intangible assets acquired by the Group are stated at cost, which might include future milestone and royalty payments. The measurement of these reflect management's best estimate as to future performance, discounted at an appropriate rate.

(iii) Taxation

The Group recognises deferred tax assets and liabilities based upon future taxable income and the expected recoverability of the balance. The estimate will include assumptions regarding future income streams of the Group and the future movement in corporation tax rates in the respective jurisdictions. 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. The estimate of liabilities in respect of current taxation depends on estimates and judgements in respect of whether or not, and the extent to which, items of income and expenditure will be taxable.

(iv) 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 acquisition and disposal related expenses and income (including amortisation and impairment on acquired intangibles, fair value uplift of inventory acquired, and the reversal of fair value and other movements on deferred and contingent consideration), the profit and related expenses on disposal of discontinued operations, debt refinancing including any loss on extinguishment of debt, impairment of investments and rationalisations. Judgement is associated with the classification of these items. The costs incurred in making acquisitions and their integration are deemed to be non-underlying as they don't relate to the sales and profit from ongoing trading activities.

1. Accounting Policies continued

(v) Business Combinations

Deferred and contingent consideration and assets and liabilities acquired through business combinations are recorded initially at fair value. Those fair values are based on risk-adjusted future cash flows discounted using appropriate interest rates. The assumptions relating to future cash flows and discount rates are based on future forecasts and therefore are inherently judgemental.

Adoption of New and Revised Standards

There are no new standards, amendments to standards or interpretations mandatory for the first time for the year ended 30 June 2017, which have had a material impact on the financial statements.

New Standards and Interpretations not yet Adopted

There are a number of new standards and amendments to existing standards currently in issue but not yet effective, including three significant standards:

- IFRS 9 'Financial Instruments';
- IFRS 15 'Revenue from contracts with customers'; and
- IFRS 16 'Leases'

IFRS 9 and IFRS 15 are now expected to be effective for the year ended 30 June 2019, with IFRS 16 expected to be effective for the year ended 30 June 2020. It is not currently practicable to quantify their effect. There are no other new standards, amendments to existing standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

(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. Non-controlling interests represent the portion of shareholders' earnings and equity attributable to third party shareholders.

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. and Dechra-Brovel S.A. de C.V. (which both 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 recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(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 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.

Notes to the Consolidated Financial Statements
continued

1. Accounting Policies continued

(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

The Group classifies its financial assets into the following categories: held for trading financial assets, available for sale financial assets, and loans and receivables. The classification depends on the purpose for which the assets are held.

Management determines the classification of its financial assets at initial recognition in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' and re-evaluates this designation at every reporting date for financial assets other than those held at fair value through the income statement.

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.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets needs to be impaired.

Held for Trading and Available for Sale Financial Assets

This category has two sub-categories: financial assets held for trading or available for sale and those designated at fair value through the income statement at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives that do not qualify for hedge accounting are also categorised as held for trading. Held for trading financial assets are recognised and subsequently carried at fair value.

Derivative Financial Instruments

The Group uses derivative financial instruments to manage its exposure to 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.

Trade Receivables

Trade and other receivables are initially recognised at fair value and subsequently stated at amortised cost less appropriate allowances for amounts which are expected to be non-recoverable. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is recognised in the income statement in operating expenses.

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.

1. Accounting Policies continued

(f) Property, Plant and Equipment

Owned Assets

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

Leased Assets

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by finance leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, 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
• plant and fixtures	3 to 15 years
• motor vehicles	4 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, associates and joint ventures. 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 'Revised IFRS 3 Business Combinations (2009)'. 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.

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.

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.

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.

1. Accounting Policies continued

(g) Intangible Assets

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 15 years
• commercial relationships	7 years
• brand	3 to 10 years
• acquired capitalised development costs	10 to 15 years
• pharmacological process	10 years

The pharmacological process is 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.

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.

(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 net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount 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.

1. Accounting Policies continued

(k) 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.

(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.

The Group sponsors defined benefit arrangements in certain countries, the most material being a defined benefit pension plan in the Netherlands. This is a funded career average pay arrangement, where pensionable salary is subject to a cap. The arrangement is funded through an insurance contract.

The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods.

That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The liability discount rate is the yield at the Statement of Financial Position date using AA rated corporate bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses that arise in calculating the Group's obligation in respect of a scheme are recognised immediately in reserves and reported in the consolidated statement of comprehensive income. Where the calculation results in a benefit to the Group, the asset recognised is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

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.

1. Accounting Policies continued

(m) Revenue Recognition

Revenue is recognised in the income statement when goods are supplied to external customers against orders and, title and risk of loss are passed to the customer. 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 title and risk has passed in full 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.

Rebates, deductions and discounts are provided for in the same period as the related sales are recorded, and are recognised when reliable estimates can be made of relevant deductions and all relevant obligations have been fulfilled, such that the earnings process is regarded as being complete. We estimate the quantity and value of goods which may ultimately be returned at the point of sale. Our return accruals are based on actual experience over the preceding 12 months for established products. For newly launched products, we use rates based on our experience with similar products or a predetermined percentage.

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.

Revenue represents net invoice value after the deduction of discounts and allowances given and accruals for estimated future rebates and returns. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly 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. Value added tax and other sales taxes are excluded from revenue.

(n) Leases

Operating Leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement evenly over the period of the lease, as an integral part of the total lease expense.

Finance Leases

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the effective interest rate method.

(o) Net Financing Costs

Net financing costs comprise interest payable on borrowings, unwinding of discount on provisions, 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. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(p) Provisions

Provisions for legal claims, 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 interest expense.

1. Accounting Policies continued

(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. In calculating any such liability a risk based approach is applied which takes into account, as appropriate, the probability that the Group would be able to obtain compensatory adjustments under international tax treaties.

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.

(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 IFRSs is given in notes 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 environment.

The European Pharmaceuticals Segment comprises Dechra Veterinary Products EU, Apex Laboratories Pty Limited (Apex), Genera and Dechra Pharmaceuticals Manufacturing. This Segment operates internationally and manufactures and markets Companion Animal, Equine and Food producing Animal Products. This Segment also includes third party manufacturing and other non-core activities sales. The Segment expanded during the year with the acquisition of the trade and assets of Apex.

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

The Pharmaceuticals Research and Development Segment includes all of the Group's pharmaceutical research and development activities. From a Board perspective, this Segment has no revenue income.

Notes to the Consolidated Financial Statements
continued

2. Operating Segments continued

Reconciliation of reportable segment revenues, profit or loss and liabilities and other material items:

		2017 £000	2016 £000
Revenue by segment			
European Pharmaceuticals	— total	**226,930**	188,859
NA Pharmaceuticals	— total	**132,345**	58,703
		359,275	247,562
Operating profit/(loss) by segment			
European Pharmaceuticals		**60,706**	51,653
NA Pharmaceuticals		**43,195**	17,500
Pharmaceuticals Research and Development		**(14,978)**	(10,355)
Segment operating profit		**88,923**	58,798
Corporate and other unallocated costs		**(7,574)**	(5,941)
Underlying operating profit		**81,349**	52,857
Amortisation of acquired intangibles		**(40,444)**	(20,149)
Impairment of acquired intangibles and associated deferred consideration		**—**	(1,675)
Impairment of assets available for sale		**(602)**	—
Fair value uplift of inventory acquired through business combinations		**(4,225)**	(6,070)
Rationalisation costs		**(809)**	(1,581)
Expenses relating to acquisition activities		**(2,055)**	(3,889)
Total operating profit		**33,214**	19,493
Finance income		**805**	21
Finance expense		**(5,298)**	(4,966)
Share of losses in investment accounted for using the equity method		**(159)**	—
Profit before taxation		**28,562**	14,548
Total liabilities by segment			
European Pharmaceuticals		**(73,738)**	(47,498)
NA Pharmaceuticals		**(20,165)**	(15,890)
Pharmaceuticals Research and Development		**(404)**	(776)
Segment liabilities		**(94,307)**	(64,164)
Corporate loans and revolving credit facility		**(181,143)**	(155,741)
Corporate accruals and other payables		**(8,197)**	(6,494)
Current and deferred tax liabilities		**(51,785)**	(52,817)
		(335,432)	(279,216)
Revenue by product category			
CAP		**223,826**	137,686
Equine		**27,246**	20,518
FAP		**47,315**	38,101
Diets		**27,457**	24,383
Other		**33,431**	26,874
		359,275	247,562
Additions to intangible non-current assets by segment (including through business combinations)			
European Pharmaceuticals		**64,502**	15,809
NA Pharmaceuticals		**4,409**	161,011
Pharmaceuticals Research and Development		**1,373**	55
Corporate and central costs		**104**	2,404
		70,388	179,279

2. Operating Segments continued

	2017 £000	2016 £000
Additions to Property, Plant and Equipment by segment (including through business combinations)		
European Pharmaceuticals	10,117	19,443
NA Pharmaceuticals	567	924
Pharmaceuticals Research and Development	82	36
Corporate and central costs	—	69
	10,766	20,472
Depreciation and amortisation by segment		
European Pharmaceuticals	22,697	18,984
NA Pharmaceuticals	23,367	5,901
Pharmaceuticals Research and Development	500	345
Corporate and central costs	735	85
	47,299	25,315
The total depreciation and amortisation charge is made up of the following;		
Non-underlying		
Amortisation — selling, general and administrative expenses	29,003	20,149
Amortisation — research and development expenditure	11,441	—
	40,444	20,149
Underlying		
Amortisation	1,942	1,403
Depreciation	4,913	3,763
	6,855	5,166

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:

	2017 Revenue £000	2017 Non-current assets £000	2016 Revenue £000	2016 Non-current assets £000
UK	56,317	15,567	54,420	19,624
Germany	37,410	2,404	34,105	2,326
Rest of Europe	113,118	192,461	91,794	162,138
USA	124,128	193,166	53,912	206,364
Rest of World	28,302	49,495	13,331	2,990
	359,275	453,093	247,562	393,442

3. Finance Income

	2017 £000	2016 £000
Finance income arising from:		
— Cash and cash equivalents	204	21
— Foreign exchange gains	601	—
	805	21

Notes to the Consolidated Financial Statements
continued

4. Finance Expense

Underlying	2017 £000	2016 £000
Finance expense arising from:		
— Financial liabilities at amortised cost	5,016	2,372
— Net interest on net defined benefit obligations	40	17
— Foreign exchange losses	—	811
Underlying finance expense	5,056	3,200

Non-underlying	2017 £000	2016 £000
Loss on extinguishment of debt (note 21)	—	844
Fair value and other movements on deferred and contingent consideration	242	922
Non-underlying finance expense	242	1,766
Total finance expense	5,298	4,966

5. Non-underlying Items

Non-underlying items charged to operating profit comprise:

	2017 £000	2016 £000
Amortisation of acquired intangibles		
— classified within selling, general and administrative expenses	29,003	20,149
— classified within research and development expenses	11,441	—
Impairment of investments	602	—
Impairment of acquired intangibles and associated deferred consideration	—	1,675
Fair value uplift of inventory acquired through business combinations	4,225	6,070
Rationalisation costs	809	1,581
Expenses relating to acquisition activities	2,055	3,889
	48,135	33,364

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.

Impairment of investments relates to the impairment of the investment in Jaguar Animal Heath Inc.

Impairment of acquired intangibles and associated deferred consideration includes the impairment of a US generic pharmaceutical product following the acquisition of Putney Inc., as Putney have already developed a similar product. It also includes the impairment of an acquired intangible due to the cessation of sales following a competitor registration in the US.

The fair value uplift of inventory acquired through business combinations is recognised in accordance with IFRS 3 'Business Combinations' to record the inventory acquired at fair value and its subsequent release into the income statement.

Rationalisation costs relate to the integration and restructuring programmes implemented subsequent to acquisitions or the reorganisation of internal functions.

Expenses relating to acquisition activities includes legal and professional fees incurred during the acquisitions of Apex (£1.6 million) and Medical Ethics (£0.4 million).

6. Interests in Associate

(a) Losses in Associate

Set out below is the summarised financial information of Medical Ethics Pty Ltd for the period 30 March 2017 to 30 June 2017, which are accounted for using the equity method. This is not Dechra PLC's share of the results.

	2017 £000
Revenue	1,631
Pre-tax loss from continuing operation	(65)
Post-tax loss from continuing operations	(303)

	2017 £000
Non-current assets	—
Current assets	5,548
	5,548
Non-current liabilities	—
Current liabilities	(538)
	(538)
Net assets of associate	5,010

(b) Interest in Associate

	£000
1 July 2016	—
Additions	11,013
Share of underlying loss after tax	(101)
Share of amortisation of intangible asset identified on acquisition	(58)
30 June 2017	10,854

On 30 March 2017 the Group acquired a 33.0% interest in Medical Ethics Pty Ltd for AUD$18.0 million (£11.0 million), which is the holding company of Animal Ethics Pty Ltd. 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 is no contingent liabilities relating to the Group's interest in the associate. Acquisition related costs (included in operating expenses) amounted to £0.4 million in the period.

As explained in note 1, the Group has undertaken a provisional notional fair value exercise at the date of acquisition to allocate the cost of the investment to the individual assets, liabilities and contingent liabilities at their acquisition date fair values. The fair values attributed at the acquisition date are provisional as the Directors have not yet reached final determination of all aspects of the fair value exercise. The Directors will finalise the fair values within 12 months of the acquisition date. The Group's share of the loss arising from its investment in Medical Ethics Pty Ltd for the period 30 March 2017 to 30 June 2017, includes the effect of amortising the fair value adjustments.

(c) Reconciliation of summarised financial information presented to the carrying amount of its interest in associates

	2017 £000
Opening net assets 1 July 2016	—
Fair value of associate acquired	2,420
Post-tax loss from continuing operations	(101)
Amortisation of notional intangible asset recognised on acquisition	(58)
Interest in associate	2,261
Goodwill	8,593
Carrying value of investment in associate	10,854

Notes to the Consolidated Financial Statements
continued

7. Profit Before Taxation

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

	2017 £000	2016 £000
Cost of inventories recognised as an expense	147,742	104,221
Impairment of inventories included in above figure	920	988
Depreciation of property, plant and equipment		
— owned assets	4,891	3,761
— under finance leases	22	2
Amortisation of intangible assets	42,386	21,552
Loss on disposal of property, plant and equipment	212	69
Loss on disposal of intangible assets	309	–
Impairment of intangible assets — underlying	—	2,487
Impairment of intangible assets — non-underlying	—	1,675
Impairment of receivables	426	93
Operating lease rentals payable	3,037	2,543
Research and development expenditure as incurred	14,978	10,355
Auditors' remuneration	663	559
Analysis of total fees paid to the Auditors':		
Audit of these financial statements	232	186
Audit of financial statements of subsidiaries pursuant to legislation	342	317
Other services pursuant to legislation	37	35
Other assurance services	52	21
Total fees paid to Auditors'	663	559

8. Employees

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

	2017 Number	2016 Number
Manufacturing	486	417
Distribution	109	121
Administration	743	770
Total	1,338	1,308

The costs incurred in respect of these employees were:

	2017 £000	2016 £000
Wages and salaries	60,869	44,331
Social security costs	8,039	6,748
Other pension costs	4,384	3,039
Share-based payments charge (see note 28)	2,825	2,386
Total	76,117	56,504

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

	2017 £000	2016 £000
Short term employee benefits	5,108	4,350
Post-employment benefits	234	251
Share-based payments charge	1,656	1,332
	6,998	5,933

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 81 to 101.

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 and operates defined benefit schemes in some countries. Total pension contributions amounted to £4,384,000 (2016: £3,039,000). Contributions to defined benefit pension schemes included in the above figures total £670,000 (2016: £581,000).

9. Income Tax Expense

		2017 £000	2016 £000
Current tax	— UK corporation tax	4,406	1,629
	— overseas tax at prevailing local rates	7,846	7,755
	— adjustment in respect of prior years	(942)	(218)
Total current tax expense		11,310	9,166
Deferred tax	— origination and reversal of temporary differences	(9,475)	(7,116)
	— adjustment in respect of tax rates	(34)	(62)
	— adjustment in respect of prior years	651	48
Total deferred tax expense		(8,858)	(7,130)
Total income tax expense in the Consolidated Income Statement		**2,452**	2,036

The tax on the Group's profit before taxation differs from the standard rate of UK corporation tax of 19.75% (2016: 20.0%). The current tax rate used for the period is 19.75% based on rates already enacted in previous periods. The differences to this rate are explained below:

	2017 £000	2016 £000
Profit before taxation	28,562	14,548
Tax at 19.75% (2016: 20.0%)	5,641	2,910
Effect of:		
— expenses not deductible	162	235
— acquisition expenses	565	167
— one-off costs (foreign exchange/acquisition costs) in relation to the acquisition of Putney Inc.	—	1,314
— research and development related tax credits	(57)	(231)
— patent box tax credits	(2,086)	(1,118)
— impact of financing (income not taxable)	(741)	(405)
— share of results of associate	31	—
— effects of overseas tax rates	(745)	(608)
— adjustment in respect of prior years	(291)	(170)
— difference between current and deferred tax rates	7	4
— change in tax rates	(34)	(62)
Total income tax expense in the Consolidated Income Statement	2,452	2,036

Recurring items in the tax reconciliation include: research and development related tax credits and patent box incentives; expenses not deductible; share of results of associate; and the impact of financing. The effective tax rate is 8.6% (excluding non-underlying items the effective tax rate is 21.9%).

Tax Credit/(Charge) Recognised Directly in Equity

	2017 £000	2016 £000
Corporation tax on foreign currency translation	—	1,234
Deferred tax on employee benefit obligations	(535)	385
Tax recognised in Consolidated Statement of Comprehensive Income	**(535)**	1,619
Corporation tax on equity settled transactions	758	1,366
Deferred tax on equity settled transactions	78	112
Total tax recognised in Equity	**836**	1,478

The Government has announced in the Finance Act 2016 that it intends to reduce the rate of corporation tax to 17% with effective from 1 April 2020, this was substantively enacted in September 2016. The Finance Act 2015 (No. 2) which was substantively enacted in October 2015 included provisions to reduce the rate of corporation tax to 19% with effect from April 2017. Deferred tax has been calculated using these rates based on the timing of when each individual deferred tax balance is expected to reverse in the future. To the extent that more deferred tax reverses after 1 April 2020 than expected then the impact will be a greater reduction on the net deferred tax liability.

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.

Notes to the Consolidated Financial Statements
continued

10. Dividends

	2017 £000	2016 £000
Final dividend paid in respect of prior year but not recognised as a liability in that year: 12.91 pence per share (2016: 11.82 pence per share)	**11,979**	10,401
Interim dividend paid: 6.11 pence per share (2016: 5.55 pence per share)	**5,685**	4,891
Total dividend 19.02 pence per share (2016: 17.37 pence per share) recognised as distributions to equity holders in the period	**17,664**	15,292
Proposed final dividend for the year ended 30 June 2017: 15.33 pence per share (2016: 12.91 pence per share)	**14,288**	11,974
Total dividend paid and proposed for the year ended 30 June 2017: 21.44 pence per share (2016: 18.46 pence per share)	**19,973**	16,865

In accordance with IAS 10 'Events After the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2017 has not been accrued for in these financial statements. It will be shown as a deduction from equity in the financial statements for the year ending 30 June 2018. There are no income tax consequences. The final dividend for the year ended 30 June 2016 is shown as a deduction from equity in the year ended 30 June 2017.

11. Earnings per Share

Earnings per ordinary share has 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.

	2017 Pence	2016 Pence
Basic earnings per share		
— Underlying*	**64.68**	42.95
— Basic	**28.09**	14.00
Diluted earnings per share		
— Underlying*	**64.33**	42.65
— Diluted	**27.93**	13.90

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

	2017 £000	2016 £000
Earnings for underlying basic and underlying diluted earnings per share	**60,132**	38,390
Earnings for basic and diluted earnings per share	**26,110**	12,512

	Number	Number
Weighted average number of ordinary shares for basic earnings per share	**92,962,967**	89,380,414
Impact of share options	**516,032**	628,307
Weighted average number of ordinary shares for diluted earnings per share	**93,478,999**	90,008,721

* Underlying measures exclude non-underlying items as defined in the Consolidated Income Statement on page 115.

At 30 June 2017, there are 294,848 options 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 £000	Software £000	Development costs £000	Patent rights £000	Marketing authorisations £000	Acquired intangibles £000	Total £000
Cost							
At 1 July 2015	49,326	5,663	10,640	3,680	853	185,614	255,776
Additions	—	2,796	570	1,337	—	—	4,703
Acquisitions through business combinations	52,323	108	—	—	—	122,145	174,576
Impairment	—	(151)	(1,537)	—	—	(4,277)	(5,965)
Foreign exchange adjustments	11,530	752	592	—	—	36,699	49,573
At 30 June 2016 and 1 July 2016 (restated)	113,179	9,168	10,265	5,017	853	340,181	478,663
Additions	—	3,237	1,258	299	104	34,183	39,081
Acquisitions through business combinations	9,906	78	—	—	—	21,323	31,307
Disposals	—	(100)	(317)	—	—	—	(417)
Foreign exchange adjustments	5,049	349	488	—	—	13,668	19,554
At 30 June 2017	**128,134**	**12,732**	**11,694**	**5,316**	**957**	**409,355**	**568,188**
Accumulated Amortisation							
At 1 July 2015	—	2,226	5,298	2,138	—	79,430	89,092
Charge for the year	—	202	796	405	—	20,149	21,552
Impairment	—	(151)	(1,319)	—	—	(333)	(1,803)
Foreign exchange adjustments	—	264	354	—	—	13,946	14,564
At 30 June 2016 and 1 July 2016 (restated)	—	2,541	5,129	2,543	—	113,192	123,405
Charge for the year	—	375	984	583	—	40,444	42,386
Disposals	—	(96)	—	—	—	(12)	(108)
Foreign exchange adjustments	—	102	31	—	—	6,110	6,243
At 30 June 2017	**—**	**2,922**	**6,144**	**3,126**	**—**	**159,734**	**171,926**
Net book value							
At 30 June 2017	**128,134**	**9,810**	**5,550**	**2,190**	**957**	**249,621**	**396,262**
At 30 June 2016 (restated)	113,179	6,627	5,136	2,474	853	226,989	355,258

	2017 £000	2016 £000
Software assets in the course of construction included above	**9,403**	1,451

The asset within patent rights comprises payments to acquire the right to develop and market Trilostane, the active ingredient of *Vetoryl* Capsules, for animal health applications in the USA and Canada. The carrying value at 30 June 2017 was £0.3 million with a remaining amortisation period of 1.5 years. The rights to *Equidone*, which was launched in the US during 2011, has a carrying value of £0.4 million with a remaining amortisation period of 4 years. The in-licensed products within EU and Canada acquired in 2016 had a carrying value of £0.7 million and £0.4 million respectively, with remaining amortisation periods of 3.5 years and 8.5 years respectively. During the year, £0.3 million was added to patent rights for new in-licenced products within EU, with a remaining amortisation period of 4.5 years.

£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.

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.

Notes to the Consolidated Financial Statements
continued

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 £000	Pharmacological process £000	Brand £000	Capitalised development costs £000	Product rights £000	Total £000
Cost						
At 1 July 2015	—	—	—	20,719	164,895	185,614
Acquired through business combinations	1,370	45,464	11,546	63,765	—	122,145
Impairment	—	—	—	—	(4,277)	(4,277)
Foreign exchange adjustments	192	3,371	886	8,597	23,653	36,699
At 30 June 2016 and 1 July 2016 (restated)	1,562	48,835	12,432	93,081	184,271	340,181
Additions	—	—	—	—	34,183	34,183
Acquisitions through business combinations	—	—	374	17,956	2,993	21,323
Foreign exchange adjustments	126	1,712	441	3,462	7,927	13,668
At 30 June 2017	**1,688**	**50,547**	**13,247**	**114,499**	**229,374**	**409,355**
Accumulated Amortisation						
At 1 July 2015	—	—	—	6,009	73,421	79,430
Charge for the year	188	759	309	3,367	15,526	20,149
Impairment	—	—	—	—	(333)	(333)
Foreign exchange adjustments	19	55	24	1,297	12,551	13,946
At 30 June 2016 and 1 July 2016 (restated)	207	814	333	10,673	101,165	113,192
Charge for the year	358	11,441	1,984	9,102	17,559	40,444
Disposals	(12)	—	—	—	—	(12)
Foreign exchange adjustments	20	(172)	(23)	643	5,642	6,110
At 30 June 2017	**573**	**12,083**	**2,294**	**20,418**	**124,366**	**159,734**
Net book value						
At 30 June 2017	**1,115**	**38,464**	**10,953**	**94,081**	**105,008**	**249,621**
At 30 June 2016 (restated)	1,355	48,021	12,099	82,408	83,106	226,989

12. Intangible Assets continued

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

Significant assets	Description	Carrying value £'000	Sub-Total carrying value £'000	Remaining amortisation period
Intangible assets arising from the acquisition of VetXX Holding A/S	Product, marketing and distribution rights	4,855	4,855	½ year
Intangible assets arising from the acquisition of Dermapet	Product, marketing and distribution rights	26,183	26,183	8 ½ years
Intangible assets arising from the acquisition of Genetrix	Product, marketing and distribution rights	1,912	1,912	3 ½ years
Intangible assets arising from the acquisition of Eurovet	Technology, product, marketing and distribution rights	41,585	41,585	5 years
Intangible assets arising from the acquisition of PSPC Inc	Product, marketing and distribution rights	4,517	4,517	7 years
Intangible asset acquired from Pharmaderm Animal Health	Marketing and distribution rights	838	838	5 years
HY-50 intangible asset acquired from Bexinc Limited	Marketing and distribution rights	2,344	2,344	4 ½ years
Intangible assets arising from the acquisition of Genera	Product, brand, technology, marketing and distribution rights	1,286		5 ½ years
		470		8 ½ years
		8,572		13 ½ years
			10,328	Genera – total
Intangible assets arising from the acquisition of Putney	Product, brand, technology, pharmacological process, marketing and distribution rights	10,178		9 years
		38,478		9 years
		56,146		11 years
			104,802	Putney – total
Intangible asset arising from the acquisition of Apex	Product and technology	16,342		16 years
		3,003		13 years
			19,345	Apex - total
Intangible asset relating to Animal Ethics	Marketing and distribution rights	29,079	29,079	10 years
Intangible assets relating to a US dental licensing agreement	Marketing and distribution rights	3,832	3,833	10 years
			249,621	

Notes to the Consolidated Financial Statements
continued

13. Property, Plant and Equipment

	Freehold land and buildings £000	Short leasehold buildings £000	Motor vehicles £000	Plant and fixtures £000	Total £000
Cost					
At 1 July 2015	17,536	4,128	125	18,436	40,225
Additions	142	167	2	2,491	2,802
Acquired through business combinations	11,554	51	215	5,850	17,670
Disposals	(98)	(7)	(67)	(202)	(374)
Foreign exchange adjustments	4,421	15	(19)	2,516	6,933
At 30 June 2016 and 1 July 2016	33,555	4,354	256	29,091	67,256
Additions	148	15	56	4,002	4,221
Acquired through business combinations	3,400	—	96	3,049	6,545
Disposals	(10)	—	(9)	(919)	(938)
Foreign exchange adjustments	2,131	6	21	1,186	3,344
At 30 June 2017	**39,224**	**4,375**	**420**	**36,409**	**80,428**
Accumulated Depreciation					
At 1 July 2015	8,314	2,146	106	12,837	23,403
Charge for the year	1,007	308	42	2,406	3,763
Disposals	(98)	(7)	—	(200)	(305)
Foreign exchange adjustments	1,453	8	(29)	1,245	2,677
At 30 June 2016 and 1 July 2016	10,676	2,455	119	16,288	29,538
Charge for the year	625	316	62	3,910	4,913
Disposals	(8)	—	(10)	(708)	(726)
Foreign exchange adjustments	779	(2)	7	722	1,506
At 30 June 2017	**12,072**	**2,769**	**178**	**20,212**	**35,231**
Net book value					
At 30 June 2017	**27,152**	**1,606**	**242**	**16,197**	**45,197**
At 30 June 2016	22,879	1,899	137	12,803	37,718
Net book value of assets held under finance leases					
At 30 June 2017	**—**	**—**	**—**	**—**	**—**
At 30 June 2016	—	43	—	—	43

	2017 £000	2016 £000
Contracted capital commitments	**4,160**	112
Assets in the course of construction included above	**303**	269

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.

Acquired intangible 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. Despite the current year sales growth, given the previous sales decline of our FAP products, the impairment indicator assessment for FAP assets was given particular attention. A review was performed to ensure that the individual products capitalised are reflective of the sales growth in the period 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 of between 0% and 3% (2016: 3%) per annum in years three and four; and
- Thereafter, a terminal value is calculated based on year four cash flows, and assuming a long term growth rate of 0% (2016: 0%).

The projections covered a period of four years as we 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 2017 for the following assets:

	2017			
Cash generating unit	**Goodwill carrying value £000**	**Indefinite life assets carrying value £000**	**Total value £000**	**Pre-tax discount rate %**
Dechra Veterinary Products EU	**72,307**	**957**	**73,264**	**11.7**
Dechra Veterinary Products NA	**53,596**	**—**	**53,596**	**14.5**
Dechra Pharmaceuticals Manufacturing — Skipton	**2,231**	**—**	**2,231**	**13.2**
	128,134	**957**	**129,091**	

	2016			
Cash generating unit	Goodwill carrying value (restated) £000	Indefinite life assets carrying value £000	Total value £000	Pre-tax discount rate %
Dechra Veterinary Products EU	54,510	853	55,363	12.3
Dechra Veterinary Products NA	56,438	—	56,438	13.5
Dechra Pharmaceuticals Manufacturing — Skipton	2,231	—	2,231	11.1
	113,179	853	114,032	

Key Assumptions

The key assumptions implicit in the impairment review are those regarding 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 of 2-3% and 0% respectively reflect a cautious 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.

Sensitivity Analysis

We have performed sensitivity analyses around the key assumptions and have concluded that no reasonable changes in key assumptions would cause the recoverable amount to be less than the carrying value. An increase in the pre-tax discount rate of 10% and a reduction in the growth rate to nil would still not result in the requirement for an impairment provision.

Notes to the Consolidated Financial Statements
continued

15. Deferred Taxes

(a) Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017 £000	Restated 2016 £000	2017 £000	Restated 2016 £000	2017 £000	Restated 2016 £000
Intangible assets	—	—	(61,316)	(63,711)	(61,316)	(63,711)
Property, plant and equipment	—	—	(3,772)	(3,604)	(3,772)	(3,604)
Inventories	831	—	—	(74)	831	(74)
Receivables/payables	3,488	1,555	—	—	3,488	1,555
Share-based payments	1,581	1,370	—	—	1,581	1,370
Losses	8,414	14,042	—	—	8,414	14,042
R&D tax credits	1,289	793	—	—	1,289	793
Employee benefit obligations	992	1,175	—	—	992	1,175
	16,595	18,935	(65,088)	(67,389)	(48,493)	(48,454)

Deferred tax assets and liabilities are offset to the extent that there is a legally enforceable right to offset current tax assets against current tax liabilities.

(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 £1,478,000 (2016: £nil). The estimated unprovided deferred tax liability in relation to these temporary differences is £74,000 (2016: £nil).

Deferred tax assets in relation to losses amounting to £1.1 million (2016: £1.0 million) have not been recognised due to uncertainty over their recoverability. Included within unrecognised losses are £1.1 million of losses which expire prior to 2030. Other losses may be carried forward indefinitely.

(c) Movements during the Year

	Balance at 1 July 2015 £000	Recognised in income £000	Acquired through business combinations (restated) £000	Recognised in equity £000	Foreign exchange adjustments £000	Balance at 30 June 2016 (restated) £000
Intangible assets	(17,235)	3,824	(44,715)	—	(5,585)	(63,711)
Property, plant and equipment	(1,806)	(127)	(1,289)	—	(382)	(3,604)
Inventories	165	2,698	(2,873)	—	(64)	(74)
Receivables/payables	480	689	247	—	139	1,555
Share-based payments	1,210	48	—	112	—	1,370
Losses	99	197	12,797	—	949	14,042
R&D tax credits	129	13	585	—	66	793
Employee benefit obligations	667	(212)	251	385	84	1,175
	(16,291)	7,130	(34,997)	497	(4,793)	(48,454)

	Balance at 1 July 2016 (restated) £000	Recognised in income £000	Acquired through business combinations £000	Recognised in equity/OCI £000	Foreign exchange adjustments £000	Balance at 30 June 2017 £000
Intangible assets	(63,711)	11,135	(6,397)	—	(2,343)	(61,316)
Property, plant and equipment	(3,604)	(101)	—	—	(67)	(3,772)
Inventories	(74)	1,273	(286)	—	(82)	831
Receivables/payables	1,555	1,873	—	—	60	3,488
Share-based payments	1,370	133	—	78	—	1,581
Losses	14,042	(6,226)	—	—	598	8,414
R&D tax credits	793	479	—	—	17	1,289
Employee benefit obligations	1,175	292	—	(535)	60	992
	(48,454)	8,858	(6,683)	(457)	(1,757)	(48,493)

15. Deferred Taxes continued

Deferred tax assets and liabilities are analysed in the statement of financial position, after offset of balances within countries as follows:

	2017 £000	Restated 2016 £000
Deferred tax asset:	780	466
Deferred tax liability:	(49,273)	(48,920)
	(48,493)	(48,454)

16. Inventories

	2017 £000	2016 £000
Raw materials and consumables	15,572	13,375
Work in progress	3,898	4,378
Finished goods and goods for resale	37,037	36,622
	56,507	54,375

Included in finished goods and goods for resale is £nil (2016: £5,188,000) of inventory held at net realisable value having been acquired through business combinations.

17. Trade and Other Receivables

	2017 £000	Restated 2016 £000
Trade receivables	59,679	59,232
Other receivables	5,501	8,084
Available for sale financial assets (note 24)	–	129
Prepayments and accrued income	2,089	1,424
	67,269	68,869

18. Cash and Cash Equivalents

	2017 £000	2016 £000
Cash at bank and in hand	61,200	39,142

19. Trade and Other Payables

	2017 £000	Restated 2016 £000
Trade payables	21,433	24,326
Other payables	18,713	17,210
Derivative financial instruments	–	50
Other taxation and social security	4,797	5,147
Accruals and deferred income	16,366	13,213
	61,309	59,946

20. Current Tax Liabilities

	2017 £000	2016 £000
Corporation tax payable	2,512	3,897

21. Borrowings

	2017 £000	2016 £000
Current liabilities:		
Bank loans	965	1,648
Finance lease obligations	8	24
	973	1,672
Non-current liabilities:		
Bank loans	180,529	154,435
Finance lease obligations	8	—
Arrangement fees netted off	(351)	(342)
	180,186	154,093
Total borrowings	181,159	155,765

In October 2016, the Group increased its existing facility from £150.0 million plus an accordion of £30.0 million to a multi-currency revolving credit facility of £205.0 million with no accordion until September 2019. During the year £25.0 million was drawn from this revised facility. This facility is not secured on any specific assets of the Group but is supported by a joint and several cross-guarantee structure. Interest will be charged at 1.8% over LIBOR. All covenants were met during the year ended 30 June 2017. This facility has since been refinanced post year-end, refer to Note 35.

At 30 June 2016, it was noted that the £1.6 million of the facility exceeded the £150.0 million limit due to exchange rate movements, as such, this was disclosed within the current portion of borrowing.

Genera also has borrowing facilities of £7.4 million, of which £4.7 million was drawn down at 30 June 2017. Interest is fixed at 3.2%.

The maturity of the bank loans and overdrafts is as follows:

	2017 £000	2016 £000
Payable:		
Within one year	965	1,648
Between one and two years	1,158	—
Between two and five years	179,371	154,435
	181,494	156,083

The minimum lease payments and the present value of minimum lease payments payable under finance lease obligations are:

	Minimum lease payments		Present value of minimum lease payments	
	2017 £000	2016 £000	2017 £000	2016 £000
Within one year	8	24	8	24
Between one and two years	7	—	7	—
Between two and five years	1	—	1	—
Total minimum lease payments	16	24	16	24
Future finance charges	1	2	1	2
Present value of lease obligations	17	26	17	26

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

22. Provisions

	Deferred Rent £'000	Provision for PPE grant £'000	Environmental Health & Safety £'000	**Total £'000**
At start of period	(559)	(2,603)	(172)	**(3,334)**
Provision recognised	—	—	(300)	**(300)**
Provision utilised	37	514	118	**669**
Foreign exchange differences	(20)	(178)	(17)	**(215)**
At end of period	(542)	(2,267)	(371)	**(3,180)**

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.

Genera has received advanced funding 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.

On the acquisition of Genera, the Group acquired a fair value provision to address existing legal and environmental compliance. A provision is recognised at the present value of the costs to be incurred for the remediation of the manufacturing site.

23. Employee Benefit Obligations

The Group sponsors defined benefit arrangements in certain countries, the most material being a defined benefit pension plan in the Netherlands. This is a funded career average pay arrangement, where pensionable salary is subject to a cap. The arrangement is financed through an insurance contract.

The other defined benefit pension arrangements operated by the Company are unfunded: Jubilee awards of £182,000 (2016: £187,000) for employees in the Netherlands are recognised within other payables in the Consolidated Statement of Financial Position as at 30 June 2017.

The pension cost relating to the defined benefit pension arrangement in the Netherlands is assessed in accordance with the advice of an independent qualified actuary using the projected unit method.

The major actuarial assumptions used by the actuary were:

	2017	2016
Discount rate	**2.10%**	1.50%
Inflation assumption	**1.80%**	1.80%
Salary growth	**2.30%**	2.30%
Rate of increase in accrued pensions of active members	**0.80%**	1.00%
Rate of increase in pensions in payment	**0.00%**	0.00%
Rate of increase in pensions in deferment	**0.00%**	0.00%

In valuing the liabilities of the pension scheme at 30 June 2017 and 30 June 2016, mortality assumptions have been made as indicated below.

The mortality assumption follows the Prognosetafel AG2016 (2016: Prognosetafel AG2014) mortality tables with an experience adjustment in line with the ES-P2 tables as published by the Dutch Alliance of Insurers.

Assumed life expectations on retirement age	Male	Female
Retiring today (age 67)	19.6	21.8
Retiring in 20 years (age 47)	21.9	24.2

The assumptions used by the Group are the best estimates chosen by the Directors from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

	2017 £000	2016 £000
Present value of funded defined benefit obligations	**(17,907)**	(17,360)
Fair value of scheme assets	**14,898**	13,639
Net pension scheme deficit	**(3,009)**	(3,721)

23. Employee Benefit Obligations continued

Movements in Present Value of Defined Benefit Obligations

	2017 £000	2016 £000
Defined benefit obligation at beginning of the period	17,360	7,210
Service cost	1,644	867
Interest cost	269	211
Employee contributions	206	171
Benefits paid	(20)	(6)
Remeasurements:		
— (Gain)/loss from change in financial assumptions	(3,429)	4,814
— Loss from change in demographic assumptions	122	—
— Experience losses	658	2,034
Foreign exchange difference on translation	1,097	2,059
Defined benefit obligations at end of the period	**17,907**	17,360

Movements in Fair Value of Scheme Assets

	2017 £000	2016 £000
Fair value of scheme assets at beginning of the period	13,639	5,899
Interest income	230	194
Additional charges	(136)	(124)
Employer contributions	670	581
Employee contributions	206	171
Benefits paid	(20)	(6)
Remeasurements:		
— Premium adjustment	483	62
— Return on plan assets	(1,058)	5,235
Foreign exchange difference on translation	884	1,627
Fair value of scheme assets at end of the period	**14,898**	13,639

Analysis of the Amount Charged to the Income Statement

	2017 £000	2016 £000
Service cost	1,644	867
Net interest cost	39	17
Additional charges	136	124
Net pension expense	**1,819**	1,008

Cumulative Analysis of the Amount Charged to the Other Statement of Consolidated Income

	2017 £000	2016 £000
Amounts charged in previous periods	2,570	1,019
Actuarial (gain)/loss on defined benefit pension scheme	(2,074)	1,551
Net pension expense	**496**	2,570

23. Employee Benefit Obligations continued

Scheme Assets

The Group's defined benefit pension scheme in the Netherlands is financed through an insurance contract. Under this contract, a market price for the assets in respect of this insurance contract is not available. In accordance with IAS 19 for such insurance policies, an asset value has been calculated by discounting expected future cash flows. The discount rate used for this calculation reflects the risk associated with the scheme assets and the maturity or expected disposal date of those assets.

The fair value of the scheme's assets is as follows:

	2017 £000	2016 £000
Total fair value of assets	14,898	13,639
Actual return on scheme assets	230	194
Discount rate used to value assets	2.10%	1.50%

The long term rate of return on pension plan assets is determined by aggregating the expected return for each asset class over the strategic asset allocation as at the year end. This rate of return is then adjusted for any expected profit sharing based on market related returns on notional loans.

The scheme's assets do not include any of the Group's own financial instruments or any property occupied by or other assets used by the Group.

The employer has a contract with the insurance company Nationale-Nederlanden to cover the committed pension benefits.

The employer contributions expected to be paid into the scheme for the next financial period amount to £680,069 (2016: £630,000).

History of Amounts in the Current Period

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Present value of funded defined benefit obligations	(17,907)	(17,360)	(7,210)	(5,927)	(4,722)
Fair value of scheme assets	14,898	13,639	5,899	4,857	3,726
Deficit in the scheme	(3,009)	(3,721)	(1,311)	(1,070)	(996)

The sensitivity of the defined benefit obligation to change in the weighted principal assumptions is:

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25%	Decrease by 6.8%	Increase by 7.4%
Salary growth rate	0.25%	Increase by 0.7%	Decrease by 0.7%
Inflation rate	0.25%	Increase by 0.2%	Decrease by 0.3%
		Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy		Increase by 2.7%	Decrease by 2.7%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension liability recognised within the statement of financial position.

Notes to the Consolidated Financial Statements
continued

24. Financial Instruments and Related Disclosures

The Group's financial instruments comprise cash deposits, bank loans and overdrafts, finance lease obligations, derivatives used for hedging purposes and trade receivables and payables.

Treasury Policy

The Group reports in Sterling and pays dividends out of Sterling profits. The role of the Group's treasury activities is to manage and monitor the Group's external and internal funding requirements and financial 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.

Capital Management

The capital structure of the Group consists of net borrowings and shareholders' equity. At 30 June 2017, net borrowing was £120.0 million (2016: net borrowing was £116.6 million), whilst shareholders' equity was £302.6 million (2016: £276.6 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, and net debt to underlying EBITDA. The Group complied with these covenants in 2017 and 2016.

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 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.

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 quarterly. These are reviewed to ensure sufficient financial headroom exists for at least a 12 month period.

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

- £205.0 million multi-currency revolving credit facility;
- £4.7 million bank loans; and
- various finance leases.

The Group's revised borrowing facilities at 30 June 2017 are detailed in note 21. Refer to note 35 for events after the reporting period for changes in the facility.

24. Financial Instruments and Related Disclosures continued

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 majority of the Group's borrowings bear interest at floating rates linked to base rate or LIBOR and are consequently exposed to cash flow interest rate risk.

The Group has hedged interest rate risk on a proportion of its revolving credit facility by means of an interest rate swap arrangement whereby the Group's exposure to fluctuations in LIBOR is fixed at a rate of 1.8% on the revolving credit facility. The amount of the revolving credit outstanding at 30 June 2017 was £176.8 million at the year end exchange rates (2016: £151.6 million).

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 possible. 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. During the previous year the Group designated a US dollar loan of $120.0 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 £65.2 million (2016: £67.4 million), which is the total carrying value of the Group's financial assets excluding cash and cash equivalents.

Cash is only deposited with highly rated banks in line with our treasury policy.

The Group offers trade credit to customers in the normal course of business. Trade and bank references are obtained prior to extending credit.

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 15.4% of gross trade receivables at 30 June 2017 (2016: 11.8%). This customer accounted for 18.5% (2016: 14.5%) of total Group revenues. One other customers accounted for more than 10% of total Group revenues (2016: none).

Receivables are written off when management considers the debt to be no longer recoverable.

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 2017 and 30 June 2016. The following assumptions were used to estimate the fair values:

- Cash and cash equivalents — approximated to the carrying amount.
- Forward exchange contracts — based on market price and exchange rates at the balance sheet date.
- Available for sale financial instruments — based on the market rates at year end.
- 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.
- Bank loans and overdrafts — based upon discounted cash flows using discount rates based upon facility rates renegotiated at the year end.
- Finance lease obligations — based upon discounted cash flows using discount rates based upon the Group's cost of borrowing at the balance sheet date.

Notes to the Consolidated Financial Statements
continued

24. Financial Instruments and Related Disclosures continued

Analysis of Financial Instruments

The financial instruments of the Group are analysed as follows:

	2017		2016	
	Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Financial assets				
Cash and cash equivalents	61,200	61,200	39,142	39,142
	61,200	61,200	39,142	39,142
Available for sale financial instruments	—	—	129	129
Loans and receivables				
— trade receivables	59,679	59,679	59,232	59,232
— other receivables	5,501	5,501	8,084	8,084
	65,180	65,180	67,445	67,445
Total financial assets	126,380	126,380	106,587	106,587
Financial liabilities				
Bank loans and overdrafts	(181,494)	(181,494)	(155,741)	(155,741)
Held for trading financial liabilities				
— derivatives designated as hedges	—	—	(50)	(50)
Finance lease liabilities	(16)	(16)	(24)	(24)
Trade payables	(21,433)	(21,433)	(24,326)	(24,326)
Other payables	(18,713)	(18,713)	(17,210)	(17,210)
Deferred and contingent consideration	(34,990)	(34,990)	(3,633)	(3,633)
Total financial liabilities	(256,646)	(256,646)	(200,984)	(200,984)
Net financial liabilities	(130,266)	(130,266)	(94,397)	(94,397)

In March 2015, the Group made an investment of US$1 million in Jaguar Animal Health Inc. (Jaguar) to potentially gain access to the EU marketing rights for a companion animal product. At 30 June 2017, the Company holds 178,571 shares in Jaguar following its IPO. The Company also holds 89,286 warrants, which are valid for three years. The shares and warrants have been fully impaired during the period.

24. Financial Instruments and Related Disclosures continued

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 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Available for sale financial instruments	—	—	—	—
Derivative financial liabilities	—	—	—	—
Deferred and contingent consideration for business combinations	—	—	(34,990)	(34,990)
Total	—	—	(34,990)	(34,990)

30 June 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Available for sale financial instruments	129	—	—	129
Derivative financial liabilities	—	(50)	—	(50)
Deferred and contingent consideration for business combinations	—	—	(3,633)	(3,633)
Total	129	(50)	(3,633)	(3,554)

Deferred and 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. There would be no material effect on the amounts stated from any reasonably probable change in such inputs at 30 June 2017. Refer to note 4 for amounts recognised in the Consolidated Income Statement in the year.

At 30 June 2017, the deferred and contingent consideration balance is made up of £0.5 million in relation to the Brovel acquisition, £3.0 million in relation to the *Phycox* acquisition, £3.6 million in relation to the Kane licensing agreement and £27.9 million in relation to the Animal Ethics licensing agreement. Movements in deferred and contingent consideration consist of: £0.8 million decrease due to foreign exchange differences, £28.8 million and £3.7 million in relation to the acquisition of the Medical Ethics Pty Ltd and Kane Biotech Inc licensing agreements respectively; payments of £0.7 million and £0.3 million of unwinding of discount.

Credit Risk — Overdue Financial Assets

The following table shows financial assets which are overdue and for which no impairment provision has been made:

	2017 £000	2016 £000
Overdue by:		
Up to one month	2,829	3,524
Between one and two months	625	1,844
Between two and three months	221	259
Over three months	624	200
	4,299	5,827

The movement in the impairment provision was as follows:

	2017 £000	2016 £000
At start of period	2,836	263
Impairment provision recognised	426	93
Acquired through business combinations	—	2,327
Foreign exchange differences	224	291
Impairment provision utilised	(315)	(138)
At end of period	3,171	2,836

Notes to the Consolidated Financial Statements
continued

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 2017 and 30 June 2016. Where interest is at floating rates, the future interest payments have been estimated using current interest rates:

At 30 June 2017	Deferred and contingent consideration £000	Bank loans and overdrafts £000	Finance leases £000	Trade and other payables £000	Total £000
Carrying value	(34,990)	(181,494)	(16)	(40,146)	(256,646)
Arrangement fees netted off	—	351	—	—	351
Future interest	(26,777)	(411)	(1)	—	(27,189)
Total committed cash flow	(61,767)	(181,554)	(17)	(40,146)	(283,484)
Payable:					
Within 6 months	(843)	(639)	(5)	(38,461)	(39,948)
Between 6 months and 1 year	(843)	(546)	(4)	(1,685)	(3,078)
Between 1 and 2 years	(3,349)	(1,258)	(7)	—	(4,614)
Between 2 and 3 years	(6,984)	(177,733)	(1)	—	(184,718)
Between 3 and 4 years	(6,398)	(1,184)	—	—	(7,582)
Between 4 and 5 years	(3,341)	(194)	—	—	(3,535)
Over 5 years	(40,009)	—	—	—	(40,009)
	(61,767)	(181,554)	(17)	(40,146)	(283,484)

At 30 June 2016	Deferred and contingent consideration £000	Bank loans and overdrafts £000	Finance leases £000	Trade and other payables £000	Total £000
Carrying value	(3,633)	(156,083)	(24)	(41,536)	(201,276)
Arrangement fees netted off	—	342	—	—	342
Future interest	(1,273)	(632)	(2)	—	(1,907)
Total committed cash flow	(4,906)	(156,373)	(26)	(41,536)	(202,841)
Payable:					
Within 6 months	(234)	(632)	(5)	(41,536)	(42,407)
Between 6 months and 1 year	(234)	—	(5)	—	(239)
Between 1 and 2 years	(789)	—	(8)	—	(797)
Between 2 and 3 years	(961)	—	(7)	—	(968)
Between 3 and 4 years	(541)	(155,741)	(1)	—	(156,283)
Between 4 and 5 years	(570)	—	—	—	(570)
Over 5 years	(1,577)	—	—	—	(1,577)
	(4,906)	(156,373)	(26)	(41,536)	(202,841)

The contractual undiscounted cash flows in respect of derivative financial instruments are as follows:

	2017 £000	2016 £000
Due:		
Within 6 months	—	50
	—	50

The Group has a contractual obligation to pay £nil (2016: £50,000), as its interest rate swap arrangement ended on 31 October 2016.

There are no other assets (2016: none) that have been impaired during the year.

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 2017 and 30 June 2016 were:

At 30 June 2017	Danish Krone £000	Euro £000	US Dollar £000	Other £000
Financial assets				
Trade receivables	918	7,626	1,102	395
Other receivables	—	77	—	—
Cash balances	—	—	5,759	5,725
	918	7,703	6,861	6,120
Financial liabilities				
Bank loans and overdrafts	(12,957)	(7,911)	(127,144)	—
Trade payables	(29)	(6,963)	(1,081)	(42)
Other payables	—	(515)	—	(357)
Finance lease	—	(16)	—	—
	(12,986)	(15,405)	(128,225)	(399)
Net balance sheet exposure	(12,068)	(7,702)	(121,364)	5,721

At 30 June 2016	Danish Krone £000	Euro £000	US Dollar £000	Other £000
Financial assets				
Trade receivables	—	4,057	1,402	851
Other receivables	—	—	51	49
Cash balances	—	—	495	6,422
	—	4,057	1,948	7,322
Financial liabilities				
Bank loans and overdrafts	(15,167)	(31,688)	(122,838)	—
Trade payables	(2)	(4,513)	(698)	(133)
Other payables	—	(790)	(16)	(705)
Derivatives	—	(25)	(25)	—
	(15,169)	(37,016)	(123,577)	(838)
Net balance sheet exposure	(15,169)	(32,959)	(121,629)	6,484

Sensitivity Analysis

Interest Rate Risk

A 2.0% increase in annual interest rates compared to those ruling at 30 June 2017 would reduce Group profit before taxation and equity by £3,620,000 (2016: £3,120,000).

Foreign Currency Risk

The Group has significant cash flows and net financial assets and liabilities in Danish Krone, US Dollar and Euro. 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.

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 balances 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 £000
Danish Krone	(943)
US Dollar	(602)
Euro	(9,479)

Notes to the Consolidated Financial Statements
continued

24. Financial Instruments and Related Disclosures continued

The sensitivities 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 1p each			
	2017		2016	
	£000	Number	£000	Number
Allotted, called up and fully paid at start of year	927	92,746,998	880	87,971,163
New shares issued	5	431,758	47	4,775,835
Allotted, called up and fully paid at end of year	932	93,178,756	927	92,746,998

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, 431,758 new ordinary shares of 1p (2016: 377,235 new ordinary shares of 1p) were issued following the exercise of options under the Long Term Incentive Plan, and the Approved, Unapproved and SAYE Share Options Schemes. The consideration received was £931,342 (2016: £742,988). 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.

26. Own Shares

	2017 £000	2016 £000
At start of the period	21	303
Recycled to profit and loss account	—	(282)
Purchase of own shares	646	—
At end of period	667	21

The own shares reserve represents the cost of shares in Dechra Pharmaceuticals PLC purchased in the market and held by the Group's Employee Benefit Trust to satisfy options under the Group's share options schemes (see note 28 for details). The number of ordinary shares held by the Employee Benefit Trust at 30 June 2017 was 42,066 (2016: 2,880).

27. Non-Controlling Interests

Following the acquisition of Genera in October 2015, the following non-controlling interest has been recorded in the Group financial statements;

	2017 £'000	2016 £'000
At start of period	1,981	—
Acquired through business combinations	—	2,248
Additional consideration paid to non-controlling interests	(583)	(390)
Profit/(loss) for the period	5	(156)
Foreign exchange differences	160	279
At end of period	1,563	1,981

On 8 November 2016, the Group purchased 0.12% of the voting shares for a consideration of HRK 344,000 (£0.04 million). On 5 December 2016, the Group purchased another 1.62% of the voting shares for a consideration of HRK 4,810,000 (£0.54 million). The Group now holds 95.13% of the equity share capital of Genera.

28. Share-based Payments

During the year, the Company operated the Unapproved Share Option Scheme, the Approved Share Option Scheme, the Long Term Incentive Plan and the Save As You Earn (SAYE) Share Option Scheme 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 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.

Long Term Incentive Plan

Vesting is dependent on two 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. 50% of the award will vest dependent on the Company's TSR performance against an appropriate comparator group. 50% of the award will vest subject to a performance condition based on annual earnings per share targets. Each of the TSR and EPS elements is subject to an additional ROCE underpin. Unless the Company's ROCE is 10% or more in the final year of the performance period, the award will lapse in full.

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. Prior to 16 October 2012, participants were able to save for a seven year 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.

Notes to the Consolidated Financial Statements
continued

28. Share-based Payments continued

Year ended 30 June 2017

	Exercise Period	Exercise price per share Pence	At 1 July 2016 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2017 Number
Unapproved Share Option Scheme							
2 April 2008†*	2011–2018	336.15	6,649	(3,383)	—	—	3,266
10 October 2008†*	2011–2018	364.63	5,444	(2,722)	—	—	2,722
30 March 2009†*	2012–2019	381.15	10,886	(2,177)	—	—	8,709
1 March 2010†*	2013–2020	418.81	4,354	(2,177)	—	—	2,177
28 February 2011†*	2014–2021	461.97	8,164	(4,943)	—	—	3,221
10 September 2012†	2015–2022	541.00	31,000	(5,000)	—	—	26,000
16 September 2013	2016–2023	721.00	47,628	(29,863)	—	—	17,765
5 March 2014	2017–2024	698.00	2,000	(2,000)	—	—	—
11 September 2014	2017–2024	763.00	57,713	(9,104)	—	(4,600)	44,009
15 September 2015	2018-2025	975.00	55,060	(1,911)	—	(5,089)	48,060
18 March 2016	2019-2026	1118.00	950	—	—	—	950
19 September 2016	2019-2026	1369.00	—	—	96,798	(7,946)	88,852
			229,848	(63,280)	96,798	(17,635)	245,731
Approved Share Option Scheme							
2 April 2008†*	2011–2018	336.15	3,612	(2,524)	—	—	1,088
1 March 2010†*	2013–2020	418.81	5,360	(4,894)	—	—	466
28 February 2011†*	2014–2021	461.95	44	—	—	—	44
10 September 2012†	2015–2022	541.00	500	(500)	—	—	—
16 September 2013	2016–2023	721.00	11,158	(7,909)	—	—	3,249
11 September 2014	2017–2024	763.00	12,087	—	—	(1,096)	10,991
15 September 2015	2018-2025	975.00	18,940	—	—	(5,500)	13,440
18 March 2016	2019-2026	1118.00	5,050	—	—	—	5,050
19 September 2016	2019-2026	1369.00	—	—	9,202	(54)	9,148
			56,751	(15,827)	9,202	(6,650)	43,476
Long Term Incentive Plan							
27 November 2013	2016–2017	—	267,070	(257,052)	—	(10,018)	—
15 September 2014	2017–2018	—	266,158	(7,046)	—	(63,854)	195,258
15 September 2015	2018–2019	—	220,621	(5,170)	—	(59,617)	155,834
22 March 2016	2019–2019	—	8,786	—	—	—	8,786
19 September 2016	2019–2020	—	—	—	149,463	—	149,463
10 October 2016	2019–2020	—	—	—	5,319	—	5,319
7 March 2017	2018–2019	—	—	—	42,066	—	42,066
			762,635	(269,268)	196,848	(133,489)	556,726
SAYE Option Scheme							
12 October 2009*	2012–2016	304.92	3,418	(3,418)	—	—	—
13 December 2010*	2013–2017	375.64	7,064	(2,431)	—	(91)	4,542
17 October 2011*	2014–2018	365.54	6,326	(6,326)	—	—	—
16 October 2012	2015–2019	471.00	7,576	—	—	—	7,576
7 April 2014	2017–2019	552.00	95,043	(69,726)	—	(2,934)	22,383
13 October 2014	2017–2023	614.00	106,577	(1,482)	—	(4,966)	100,129
12 October 2015	2018–2024	792.00	92,162	—	—	(9,358)	82,804
13 October 2016	2019–2025	1095.00	—	—	52,877	(3,448)	49,429
			318,166	(83,383)	52,877	(20,797)	266,863
Total			1,367,400	(431,758)	355,725	(178,571)	1,112,796
Weighted average exercise price*			300.46p	215.71p	570.71p	232.47p	430.64p

* 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 2017 are 68,707.

28. Share-based Payments continued

Year ended 30 June 2016

	Exercise Period	Exercise price per share Pence	At 1 July 2015 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2016 Number
Unapproved Share Option Scheme							
2 April 2008†*	2011–2018	336.15	9,915	(3,266)	—	—	6,649
10 October 2008†*	2011–2018	364.62	11,976	(6,532)	—	—	5,444
30 March 2009†*	2012–2019	381.15	20,683	(7,620)	—	(2,177)	10,886
1 March 2010†*	2013–2020	418.81	14,143	(7,612)	—	(2,177)	4,354
28 February 2011†*	2014–2021	461.97	18,461	(8,120)	—	(2,177)	8,164
10 September 2012	2015–2022	541.00	63,244	(30,244)	—	(2,000)	31,000
16 September 2013	2016–2023	721.00	47,842	—	—	(214)	47,628
5 March 2014	2017–2024	698.00	2,000	—	—	—	2,000
11 September 2014	2017–2024	763.00	60,817	(721)	—	(2,383)	57,713
15 September 2015	2018–2025	975.00	—	—	55,060	—	55,060
18 March 2016	2019–2026	1188.00	—	—	950	—	950
			249,081	(64,115)	56,010	(11,128)	229,848
Approved Share Option Scheme							
19 March 2007†*	2010–2017	265.43	7,620	(7,620)	—	—	—
2 April 2008†*	2011–2018	336.15	9,766	(6,154)	—	—	3,612
1 March 2010†*	2013–2020	418.81	5,360	—	—	—	5,360
28 February 2011†*	2014–2021	461.97	5,545	(5,501)	—	—	44
10 September 2012	2015–2022	541.00	10,756	(10,256)	—	—	500
16 September 2013	2016–2023	721.00	15,158	(2,123)	—	(1,877)	11,158
11 September 2014	2017–2024	763.00	15,183	(415)	—	(2,681)	12,087
15 September 2015	2018–2025	975.00	—	—	18,940	—	18,940
18 March 2016	2019-2026	1188.00	—	—	5,050	—	5,050
			69,388	(32,069)	23,990	(4,558)	56,751
Long Term Incentive Plan							
5 March 2013	2016–2016	—	226,168	(210,112)	—	(16,056)	—
27 September 2013†	2014–2015	—	41,739	(38,859)	—	(2,880)	—
27 November 2013	2016–2017	—	276,012	(4,113)	—	(4,829)	267,070
15 September 2014	2017–2018	—	275,332	—	—	(9,174)	266,158
15 September 2015	2018–2019	—	—	—	220,621	—	220,621
22 March 2016	2019-2026	—	—	—	8,786	—	8,786
			819,251	(253,084)	229,407	(32,939)	762,635
SAYE Option Scheme							
13 October 2008*	2011–2015	315.02	5,306	(5,306)	—	—	—
12 October 2009*	2012–2017	304.92	3,418	—	—	—	3,418
13 December 2010*	2013–2016	375.64	16,379	(8,830)	—	(485)	7,064
17 October 2011*	2014–2018	365.54	6,825	—	—	(499)	6,326
16 October 2012	2015–2019	471.00	59,599	(50,686)	—	(1,337)	7,576
7 April 2014	2017–2019	552.00	102,257	(905)	—	(6,309)	95,043
13 October 2014	2017–2023	614.00	120,502	(1,091)	—	(12,834)	106,577
12 October 2015	2018-2024	792.00	—	—	101,513	(9,351)	92,162
			314,286	(66,818)	101,513	(30,815)	318,166
Total			1,452,006	(416,086)	410,920	(79,440)	1,367,400
Weighted average exercise price*			244.39p	178.56p	387.56p	364.60p	300.46p

* 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 2016 were 76,013.

The weighted average exercise price of options eligible to be exercised at 30 June 2017 was 470.86p (2016: 453.67p). For options exercised during the year, the weighted average market price at the date of exercise was 1,415p (2016: 1,206p). The weighted average remaining contractual lives of options outstanding at the Consolidated Statement of Financial Position date was four years (2016: four years).

Outstanding options on all Long Term Incentive Plan, Approved and Unapproved plans prior to 30 June 2014 were exercisable at 30 June 2017. No options issued under SAYE plans were exercisable at 30 June 2017 (2016: nil).

28. Share-based Payments continued

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:

Long Term Incentive Plan

Date of grant	07/03/17	07/03/17	10/10/16	19/9/16	22/03/16	15/09/15
Number of shares awarded	21,033	21,033	5,319	149,463	8,786	220,621
Share price at date of grant	1652p	1652p	1389p	1379p	1200p	990p
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil
Expected life	2 years	1 year	3 years	3 years	3 years	3 years
Risk-free rate	0.12%	0.12%	0.12%	0.12%	0.46%	0.68%
Volatility	22%	22%	22%	22%	22%	22%
Dividend yield	1.54%	1.54%	1.54%	1.54%	1.61%	0.54%
Fair value per share	1500p	1500p	1108p	1108p	1021p	764p

Unapproved and Approved Share Option Schemes

Date of grant	19/9/16	18/03/16	15/09/15
Number of shares awarded	106,000	6,000	74,000
Share price at date of grant	1379p	1185p	990p
Exercise price	1369p	1188p	975p
Expected life	6.5 years	6.5 years	6.5 years
Risk-free rate	0.47%	1.02%	1.47%
Volatility	26%	26%	27%
Dividend yield	1.54%	1.62%	0.54%
Fair value per share	305p	273p	284p

Save As You Earn Option Scheme

Date of grant	13/10/16	12/10/15
Number of shares awarded	52,877	101,513
Share price at date of grant	1370p	930p
Exercise price	1095p	792p
Expected life		
— three year scheme	3.25 years	3.25 years
— five year scheme	5.25 years	5.25 years
Risk-free rate		
— three year scheme	0.22%	0.83%
— five year scheme	0.44%	1.17%
Volatility		
— three year scheme	22%	22%
— five year scheme	24%	26%
Dividend yield	1.51%	0.53%
Fair value per share		
— three year scheme	302p	215p
— five year scheme	346p	283p

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 2017 of £968,000 (2016: £842,000), of which £78,000 (2016: £65,000) related to vested options. The total charge to the Consolidated Income Statement in respect of share-based payments was:

	2017 £000	2016 £000
Equity settled share-based transactions	2,268	2,058
Cash settled share-based transactions	557	328
	2,825	2,386

The above charge to the Consolidated Income Statement is included within administrative expenses.

29. Analysis of Net Borrowings

	2017 £000	2016 £000
Bank loans	(181,143)	(155,741)
Finance leases and hire purchase contracts	(16)	(24)
Cash and cash equivalents	61,200	39,142
Net borrowings	(119,959)	(116,623)

30. Operating Leases

At the balance sheet date the Group had outstanding commitments for future minimum rentals payable under non-cancellable operating leases as follows:

	Land and buildings		Other assets		Total	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Within one year	1,009	986	2,282	1,978	3,291	2,964
Between one and five years	2,573	2,619	4,006	3,142	6,579	5,761
In five years or more	1,620	1,536	1,143	1,517	2,763	3,053
	5,202	5,141	7,431	6,637	12,633	11,778

The Group leases properties, plant, machinery and vehicles for operational purposes. Property leases vary in length up to a period of 20 years. Plant, machinery and vehicle leases typically run for periods of up to five years.

31. Foreign Exchange Rates

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

	Average rate for 2016	Closing rate at 30 June 2016	Average rate for 2017	Closing rate at 30 June 2017
Danish Krone	10.0162	9.0010	8.6901	8.4571
Euro	1.3432	1.2099	1.1681	1.1372
US Dollar	1.4870	1.3433	1.2735	1.2978

32. Acquisitions

Acquisition of Apex

On 14 October 2016, Dechra acquired certain trade and assets of Apex Laboratories Pty Ltd, a veterinary pharmaceuticals company based in New South Wales, Australia. The Group paid £34.2 million (AUD$ 55.0 million) consideration in cash on a debt free, cash free basis.

	Fair value £000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Identifiable assets	
Property, plant and equipment	6,545
Software	78
Inventories	2,120
Trade and other receivables	1,575
Trade and other payables	(462)
Non-current liabilities	(171)
Identifiable intangible assets	21,323
Net deferred tax liability	(6,683)
Net identifiable assets	24,325
Goodwill	9,906
Total consideration	34,231
Satisfied by:	
Cash	34,231
Total consideration transferred	34,231
Net cash outflow arising on acquisition	
Cash consideration	34,231
	34,231

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

Notes to the Consolidated Financial Statements
continued

32. Acquisitions continued

The goodwill of £9.9 million arising from the acquisition consists of technical expertise of the assembled workforce, access to the Australasian and Asia Pacific regions to continue geographical expansion, and future sales expected to be achieved through the registration of Dechra products in these countries. None of the goodwill is expected to be deductible for income tax purposes.

Acquisition related costs (included in operating expenses) amounted to £1.6 million. Apex's results are reported within the EU Pharmaceuticals Segment. Apex contributed £7.1 million revenue and £1.1 million to the Group's pre-tax profit for the period between the date of acquisition and the balance sheet date. If the acquisition of Apex had been completed on the first date of the financial year, the contribution to Group revenues for the period would have been £9.9 million and the Group pre-tax profit would have been £2.1 million.

Prior Year Acquisitions

In the prior year the Group acquired Putney and Brovel. The fair values of the assets and liabilities acquired have been reconsidered as part of the hindsight period.

In relation to Putney, there was a reduction in provisions of £0.4 million to true-up the position at acquisition. Intangible assets were reduced by £0.8 million to reflect an agreement that at the point of acquisition was not required due to the existence of other supplier relationships. Hindsight adjustments have also been made in respect of deferred tax assets on losses (£2.9 million), inventory (£0.2 million), R&D credits (£0.6 million), intangibles (£0.3 million) and receivables (£0.3 million).

In relation to Brovel, there was a reduction in receivables (£0.1 million) and an increase in payables of £0.1 million following a true-up of the final working capital position. A deferred tax asset of £0.3 million has been recognised following a detailed assessment of the recoverability of these assets.

Following the acquisition of Genera in October 2015, the disclosure of the final fair values of the assets and liabilities acquired have been included in the financial statements for the year ended 30 June 2016.

Acquisition of Brovel

The revised fair values of the acquired assets and liabilities on the acquisition of Brovel are detailed below:

	Fair value £000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Identifiable assets	
Property, plant and equipment	243
Inventories	1,152
Trade and other receivables	346
Cash and cash equivalents	202
Trade and other payables	(465)
Net deferred tax asset	120
Net identifiable assets	1,598
Goodwill	2,466
Total consideration	4,064
Satisfied by:	
Cash	3,473
Contingent consideration arrangement	591
Total consideration transferred	4,064
Net cash outflow arising on acquisition	
Cash consideration	3,473
Less cash and cash equivalents acquired	(202)
	3,271

32. Acquisitions continued

Acquisition of Putney

The revised fair values of the acquired assets and liabilities on the acquisition of Putney are detailed below:

	Fair value £000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Identifiable assets	
Property, plant and equipment	**466**
Inventories	**14,037**
Trade and other receivables	**5,699**
Cash and cash equivalents	**1,541**
Trade and other payables	**(7,160)**
Provisions	**(546)**
Debt	**(6,299)**
Identifiable intangible assets	**112,580**
Net deferred tax liability	**(31,517)**
Net identifiable assets	**88,801**
Goodwill	**45,391**
Total consideration	**134,192**
Satisfied by:	
Cash	**134,192**
Total consideration transferred	**134,192**
Net cash outflow arising on acquisition	
Cash consideration	**134,192**
Less cash and cash equivalents acquired	**(1,541)**
	132,651

33. 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 167 to 168.

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 81 to 101. The remuneration of key management is disclosed in note 8.

Non-Controlling Interests

Refer to note 27 for transactions with non-controlling interests during the year.

34. Off Balance Sheet Arrangements

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

35. Events after the Reporting Period

On 25 July 2017, the Group signed a new Credit agreement refinancing its previous £205.0 million Revolving Credit Facility (RCF). The new committed facilities are a new five year multi-currency RCF with two one year extension options for £235.0 million through seven banks: HSBC, BNP Paribas, Fifth Third, Santander, Lloyds, Bank of Ireland and Raiffeisen. The RCF has an Accordion facility of a further £125.0 million.

There are two covenants governing the RCF:

- Leverage: Net Debt to underlying EBITDA not greater than 3:1
- Interest cover: underlying EBITDA to Net Finance Charges not less than 4:1

There is a non-utilisation fee of 35.0% of the applicable margin. The margin over LIBOR (or equivalent) ranges from 1.3% for gearing below 1 time, up to 2.2% for gearing above 2.5 times.

Following the refinancing, the existing capitalised arrangement fees of £0.4 million will be accelerated to the income statement.