

Notes to the Consolidated Financial Statements

continued

1. Accounting Policies continued

(q) Provisions

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

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

(r) Basis of Charge for Taxation

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

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

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

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

In respect of uncertain tax positions, where an outflow of funds is believed to be probable and a reliable estimate of the outcome of the dispute can be made, management provides for its best estimate of the liability. Such provisions are measured using either the best estimate, or the expected value model depending on management's judgement of which method better predicts the resolution of the uncertainty.

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 IFRS is given in the Financial Review on page 27. A breakdown of the non-underlying items 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 environments.

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

2. Operating Segments continued

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 and was further expanded during the period with the acquisition of Ampharmco LLC.

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.

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

	2020 £m	Restated* 2019 £m
Revenue by segment		
European Pharmaceuticals	323.5	304.0
NA Pharmaceuticals	191.6	177.8
	515.1	481.8
Operating profit/(loss) by segment		
European Pharmaceuticals	100.0	100.3
NA Pharmaceuticals	63.7	59.2
Pharmaceuticals Research and Development	(28.4)	(25.1)
Segment operating profit	135.3	134.4
Corporate and other unallocated costs	(7.0)	(7.0)
Underlying operating profit	128.3	127.4
Amortisation of acquired intangibles	(69.6)	(76.8)
Remeasurement of contingent consideration	–	0.1
Expenses relating to Brexit	–	(0.9)
Fair value uplift of inventory acquired through business combinations	–	(5.1)
Rationalisation of manufacturing organisation	(2.2)	(2.0)
Expenses relating to acquisitions and subsequent integration activities	(4.3)	(3.7)
Total operating profit	52.2	39.0
Finance income	3.0	0.7
Finance expense	(14.0)	(11.5)
Share of losses in investment accounted for using the equity method	(0.3)	(0.4)
Profit before taxation	40.9	27.8
Total liabilities by segment		
European Pharmaceuticals	(110.3)	(80.9)
NA Pharmaceuticals	(53.1)	(44.0)
Pharmaceuticals Research and Development	(5.1)	(2.1)
Segment liabilities	(168.5)	(127.0)
Corporate loans and revolving credit facility	(340.0)	(308.1)
Corporate accruals and other payables	(3.4)	(6.5)
Current and deferred tax liabilities *	(88.2)	(90.8)
	(600.1)	(532.4)
Revenue by product category		
CAP	361.6	340.2
Equine	36.4	34.4
FAP	74.8	57.3
Nutrition	28.6	29.1
Other	13.7	20.8
	515.1	481.8
Additions to intangible non-current assets by segment (including through business combinations)		
European Pharmaceuticals *	22.3	42.2
NA Pharmaceuticals	47.5	–
Pharmaceuticals Research and Development	0.4	0.3
Corporate and central costs	1.5	0.5
	71.7	43.0

* Restated as detailed in note 31 Acquisitions.

Notes to the Consolidated Financial Statements

continued

2. Operating Segments continued

	2020 £m	2019 £m
Additions to Property, Plant and Equipment by segment (including through business combinations)		
European Pharmaceuticals	12.1	17.4
NA Pharmaceuticals	4.3	0.3
Pharmaceuticals Research and Development	0.7	0.4
Corporate and central costs	0.2	0.1
	17.3	18.2
Depreciation and amortisation by segment		
European Pharmaceuticals	64.1	68.1
NA Pharmaceuticals	18.5	17.8
Pharmaceuticals Research and Development	0.5	0.3
Corporate and central costs	0.7	0.4
	83.8	86.6
The total depreciation and amortisation charge is made up of the following:		
Non-underlying		
Amortisation – selling, general and administrative expenses	63.9	70.0
Amortisation – research and development expenditure	5.7	6.8
	69.6	76.8
Underlying		
Amortisation	4.3	4.1
Depreciation	9.9	5.7
	14.2	9.8

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:

	2020 Revenue £m	2020 Non- current assets £m	2019 Revenue £m	Restated* 2019 Non- current assets £m
UK	45.0	30.4	56.4	20.1
Germany	53.9	2.8	48.2	3.7
Rest of Europe	173.8	419.8	163.5	443.8
USA	181.9	213.2	169.1	175.8
Rest of World	60.5	122.5	44.6	106.6
	515.1	788.7	481.8	750.0

* Restated as detailed in note 31 Acquisitions.

3. Finance Income

	2020 £m	2019 £m
Finance income arising from:		
– Cash and cash equivalents	0.1	–
– Foreign exchange gains	2.9	0.7
	3.0	0.7