32. Contingent Consideration Liabilities continued

The consideration payable for Tri-Solfen® is expected to be payable over a number of years, and relates to development milestones and sales performance. During the year, the development milestones have been remeasured and are now expected to happen later than initially anticipated. The sales performance royalties have been remeasured during the year reflecting an increase in management's best estimate of forecasted sales performance.

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

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

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

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

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 212 to 214.

Transactions with Key Management Personnel

The details of the remuneration, Long Term Incentive Plans, shareholdings, share options and pension entitlements of individual Directors are included in the Directors' Remuneration Report on pages 129 to 138. The remuneration of key management is disclosed in note 8.

Associates

The Group holds a 48% stake in Medical Ethics Pty Ltd, which is the holding company of Animal Ethics Pty Ltd. There have been no transactions with the Medical Ethics Group during the year. In the prior year, a milestone payment of £1.4 million (AUD 2.5 million) relating to the licensing agreement with Animal Ethics Pty Ltd was made. Refer to note 6 for further information on the results of the associate in the period.

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. Changes in Accounting Policies

IFRS 16 'Leases'

The Group has adopted IFRS 16 retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

(a) Adjustments Recognised on Adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.9%.

	2019 £m
Operating lease commitments disclosed as at 30 June 2019	16.4
Impact of discounting using the incremental borrowing rate (IBR) on transition	(2.0)
(Less): short term leases recognised on a straight-line basis as expense	(0.8)
(Less): contracts reassessed as service agreements	(0.9)
Lease liability recognised as at 1 July 2019	12.7
Of which are:	
Current lease liabilities	2.7
Non-current lease liabilities	10.0
	12.7

Notes to the Consolidated Financial Statements

continued

35. Changes in Accounting Policies continued

The recognised right of use assets relate to the following types of assets:

	30 June 2020 **£m**	1 July 2019 £m
Properties	**11.2**	9.2
Equipment	**0.3**	0.4
Motor vehicles	**3.4**	3.1
Total right of use assets	**14.9**	12.7

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- right of use assets (reflected in property, plant and equipment) – increase £12.7 million
- lease liability (reflected in borrowings) – increase £12.7 million

The net impact on retained earnings on 1 July 2019 was £nil. The adoption of IFRS 16 has resulted in EBITDA being £3.7 million higher and EBIT being £0.2 million higher in the current period compared to IAS 17.

Practical Expedients Applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate for a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 14 'Determining whether an arrangement contains a lease'.

(b) The Group's Leasing Activities and how these are accounted for

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

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

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

Until the 2020 financial year, leases of property, plant and equipment were classified as operating leases. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Extension and termination options

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

IFRIC 23 'Uncertainty over Income Tax Treatments'

From 1 July 2019, the Group has adopted IFRIC 23 which clarifies the application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. Upon adoption of IFRIC 23, there have been no material adjustments to the uncertain tax positions held on the balance sheet as at 30 June 2019. The Group have also reviewed the most appropriate methodology for the uncertain tax positions held at the balance sheet date. Based on the current facts and circumstances in each case, the Group has used both the most likely outcome method and the expected value method in calculating the value of the provision required. This methodology will be reviewed in each case upon the receipt of any new information.