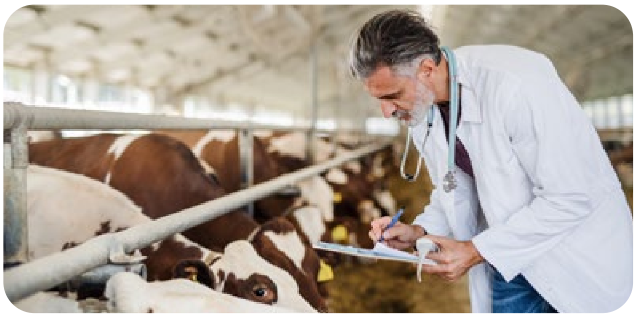
Animalcare GROUP

Better animal health

Annual Report for the year ended 31 December 2022



Animalcare Group plc is an international, development-focused sales and marketing organisation driven by a collective belief that healthy animals can have a hugely beneficial effect on their owners and wider society.

Listed on the UK's AIM market, Animalcare has a direct commercial presence in seven European countries and exports to around 40 countries in Europe and worldwide. The Group is focused on growing its business over the long term by bringing new and innovative animal health products to market through its own development pipeline, partnerships and via acquisition.

Why Animalcare?

Pipeline of novel products

The Group has shifted its R&D and business development focus from branded generics to novel, differentiated products with higher margin and growth potential. Daxocox, our medication for osteoarthritis-related pain in dogs, successfully emerged from our pipeline in 2021 while Plaqtiv+ dental health range reached the market with a series of launches in 2022. Adding to a series of life cycle management projects designed to expand the value of marketed brands, the Group further strengthened the pipeline in March 2022 through an early-stage licensing and collaboration agreement with Orthros Medical to develop innovative VHH antibody-based therapies.

Read more on **our strategy** on **page 10**

Read more on our **strategy in action** on **page 15**

Well positioned in attractive markets

The market for animal pharmaceuticals has enjoyed a period of robust global growth, a trend that is widely forecast to continue. While the Production Animals segment is benefiting from increasing demand for protein, the Companion Animals sector is growing at a faster rate, largely driven by exceptionally high levels of pet ownership and a greater willingness to spend on health and wellbeing. In 2022, we derived approximately 78% (2021: 77%) from Companion Animals and Equine. Consequently, Animalcare is structurally well positioned in a fast-growing and attractive market with strong long-term fundamentals.

Read more on **marketplace** on **page 04**

Streamlined portfolio

Rationalisation of the Group's product portfolio in recent years has delivered positive results. Focusing attention on the larger selling, higher potential Top 40 brands while disposing of several smaller, lower value "tail" products has created a more streamlined and manageable portfolio with improved margins.

Read more on **our strategy** on **page 12**

Financial flexibility enabling growth

Our focus on strengthening the Group's financial position in recent years has significantly reduced net debt levels. As a result, the Group has the capacity to invest in value-creating opportunities that will add to our pipeline or can be leveraged more immediately across our European operations and network of partners to accelerate growth.

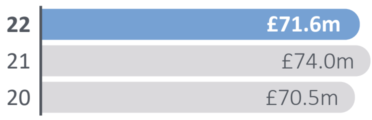
Read more on **performance** on **page 20**

Financial highlights

Animalcare's performance in 2022 highlighted the resilience of our business and of the animal health markets in which we operate. Good cash generation helped maintain our strong balance sheet with the leverage ratio at 0.4 times remaining well below the Group's target range of one to two times underlying EBITDA.

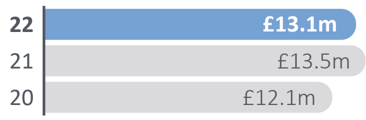
£71.6m ↓3.3%

REVENUE



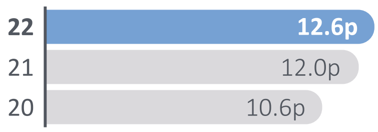
£13.1m ↓2.4%

UNDERLYING* EBITDA



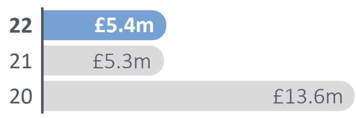
12.6p ↑5.0%

UNDERLYING EPS



£5.4m ↑£0.1m

NET DEBT



* Alternative Performance Measures (APMs) are reconciled to reported results in the Chief Financial Officer's review and within the notes to the consolidated financial statements.

Strategic and operational highlights

- Continuing focus on Top 40 brands contributes to strong increase in gross margins
- Daxocox becomes a top 10 selling product in the Group's portfolio
- Plaqtiv+ dental range launched after accreditation from influential Veterinary Oral Health Council
- Preclinical pipeline projects initiated following licensing and collaboration agreement with Orthros Medical to explore potential of VHH antibodies
- Tailored talent management programme implemented to identify and develop future leaders
- Doug Hutchens and Sylvia Metayer join the Group Board as Non-Executive Directors
- Sustainability Task Force established to develop and drive Group-wide ESG strategy

Chair's Statement

JAN BOONE
Non-Executive Chair

> Animalcare's performance in 2022 highlighted the resilience of our business and of the animal health markets in which we operate

Animalcare's performance in 2022 highlighted the resilience of our business and the markets in which we operate as we continued to make progress against our strategic priorities.

Revenues for the full year were £71.6m, a 3.3% decline that reflects a moderation in post-pandemic demand combined with factors such as the conclusion of product distribution agreements and the application of EU laws in Spain designed to reduce antibiotic usage.

At £13.1m, underlying EBITDA declined broadly in line with revenues thanks to a favourable product mix and disciplined management of SG&A costs. After adjusting for underlying items totalling £6.5m (2021: £8.6m), profit before tax on a reported basis was £2.5m (2021: £0.9m).

A good cash conversion rate of 78% (2021: 109%) maintained the healthy state of the Group's financial platform with net debt standing at £5.4m (2021: £5.3m) by the year end and leverage well below our stated target range of one to two times underlying EBITDA. This solid balance sheet position continues to support the Group's pursuit of value-creating opportunities that have the potential to grow our business over the coming years.

In March 2022 we reached an agreement with Netherlands-based Orthros Medical to secure a global licence for innovative VHH antibody candidates, initially addressing canine osteoarthritis. This exciting early-stage research and development collaboration helps build our pipeline in a fast-growing disease area that we know well. Elsewhere, we continue to seek out investments that can extend our geographic footprint and add to our product line-up in the shorter term, whether through M&A or partnerships.

Rationalisation of the Group's portfolio, which is now materially complete, continues to bear fruit. Management focus on larger more profitable products, combined with the discontinuation of several lower value "tail" treatments, has concentrated our firepower to the benefit of our gross margins. Against this backdrop it was particularly satisfying to see Daxocox, our innovative treatment for osteoarthritis-related pain in dogs, enter the top 10 selling products in our portfolio less than two years after coming to market. It was also pleasing to see the Plaqtiv+ dental range contribute to earnings following planned launches in the second quarter.

The Group's proven resilience and robust financial position support the Board's decision to propose a final dividend of 2.4 pence per share (2021: 2.4 pence per share).

The experience and skills of the Animalcare team drive our business forward. It's vital, therefore, that we continue to build the capabilities we need, now and into the future. In 2022 we rolled out a tailored programme to develop the next generation of leaders across the Group. We also invested in the sales and marketing excellence required to succeed in this dynamic and increasingly innovation-driven market.

In our previous Annual Report, we laid out our Group-wide approach to the environmental, social and governance (ESG) pillars of sustainable development. During the last 12 months we have noted an increasing interest in ESG-related topics among a number of our stakeholders.

While recognising that we are at the early stage of our journey in this area, we have established important foundations with the creation of a dedicated Sustainability Task Force chaired by CFO Chris Brewster to advise on aspects of sustainability, including identification of material issues to our stakeholders and the potential impact on our business.

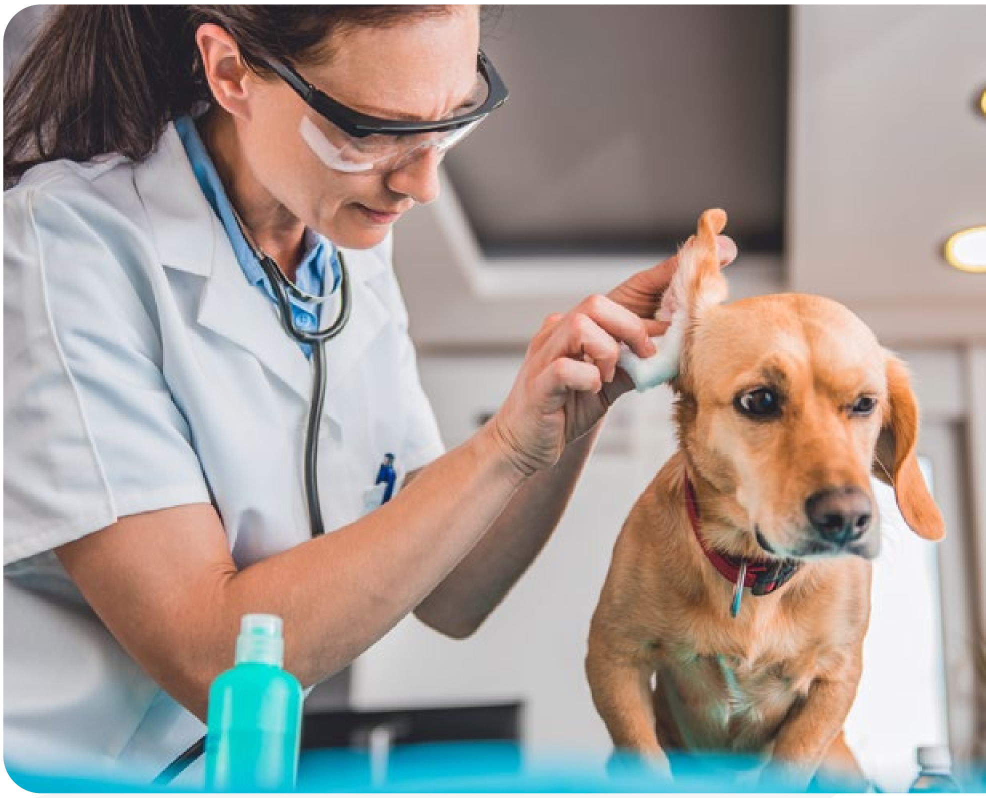
Despite the uncertain economic environment, we see reasons for optimism as we look ahead. The attractive fundamentals of our animal health markets and the strong position of the Group provide us with the confidence to continue investing in our long-term growth strategy.

Following the appointment of Doug Hutchens as a Non-Executive Director at the beginning of the year, we welcomed Sylvia Metayer to the Board in May 2022. Subsequently, she took over as Chair of the Audit and Risk Committee at the Group's AGM.

Sylvia brings a wealth of financial and commercial experience gained most recently at Sodexo SA, a global leader in food and facility management outsourcing. I know that Sylvia will be of huge value as the Group continues to implement its long-term growth strategy.

No review of the year would be complete without recognition for the skills and commitment of the Animalcare team across all our markets. Our progress in 2022 was made possible through their efforts. I'd also like to thank you, our shareholders, for your continued support in our Company as we strive to achieve better animal health.

JAN BOONE
Non-Executive Chair



Our Marketplace

Overview of our marketplace

The Group operates in three categories within the veterinary market: Companion Animals, Equine and Production Animals. We are focused on therapeutic areas with strong growth potential and where we have expertise, such as pain management, dental health and anti-infectives.

After exceptional growth in 2021, fuelled by the lifting of pandemic restrictions and increased levels of pet ownership, demand moderated across Europe over the course of 2022. Historically, the animal health industry has been resilient in previous economic downturns compared to other industries and we believe companies with products used by vets predominately in the vet practice are in a good position to see out any downturn.

Parasiticides and vaccines accounted for over 60% of the market with vaccines maintaining their number one position. The launch of novel products for cats and dogs has driven the pain management market to new highs with few signs of a slow-up in demand. Antimicrobials, which continued to decline in 2022 compared to the overall European animal health sector, have seen market share decrease by more than 50% over the last 10 years[1].

GEOGRAPHIC MARKETS

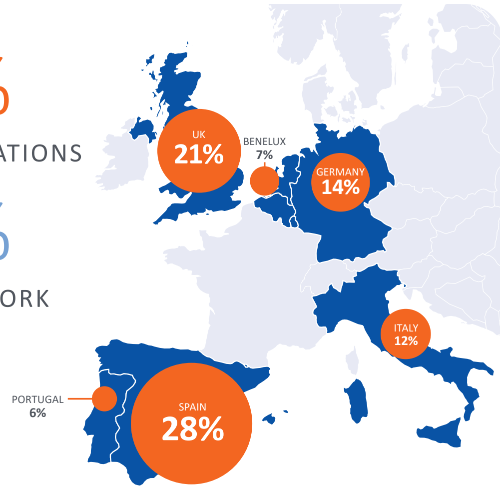
Europe, which accounted for 98% of our revenue in 2022, is the second largest market for animal health and represents about a third of global sales[2]. We sell our products either through our direct sales teams or distributors in all EU countries as well as the UK, Switzerland and Norway. We export to 15 countries outside Europe including Australia, New Zealand, Japan, Korea, Hong Kong, Brazil and Israel and are actively looking to increase our global footprint in the coming years.

88%

OUR OPERATIONS

12%

OUR NETWORK PARTNERS



THERAPEUTIC MARKETS

Pain management

The global market for animal pain control products in 2020 was approximately US$750m and comprises three key segments: acute pain control, chronic pain control and acute/chronic pain control combined. The acute/chronic segment represents around 60% of the market while the remaining 40% is equally split between chronic only and acute only products.

The pain market is forecast to grow annually by nearly 8%, compared with 5% for animal health overall. The single largest category in this segment is Non-Steroidal Anti-Inflammatory Drugs (NSAIDs) with a mix of generics and newer, more innovative patent-protected products such as the Group's Daxocox treatment. The 2021 approval in Europe of Nerve Growth Factors (NGF1) inhibiting monoclonal antibody therapies for dogs and cats has proved to be a notable source of growth.

The market is characterised by canine pain associated with osteoarthritis. Increased pet ownership during the pandemic should expand the market, especially when the current cohort of two and three year old dogs enters the geriatric phase.

Treatment compliance is another important factor. As most animals require daily medication, dosing by owners is a significant risk to long-term pain control in pets. New weekly and monthly options have become available in recent years which should improve treatment outcomes.

Innovation is also a key driver in this market. Newer products help to drive awareness of pain management and, consequently, greater compliance in use. These innovative treatments are expected to command higher margins and earnings.

Dental

Periodontal disease in dogs is a progressive condition caused by bacteria that damages gums, bone and other supportive structures of the teeth. It is estimated that more than 80% of dogs over the age of three years have some form of periodontal disease[6].

Most pet dental products are sold through non-veterinary channels and the market is fragmented. With the increased humanisation of pets and overall improvements to pet welfare, we view the veterinary dental market as a growth opportunity. Simple diagnostic tools to encourage dental conversations with pet owners will be key to identify the non-visible signs of periodontal disease and help drive dental sales in veterinary practice.

Innovative science-based products and the introduction of treatments for cats are expected to further drive the market in the near future.

Anti-infectives

Anti-infectives are used to treat or prevent infection and include antibiotics, antivirals, antifungals, antimalarials, antiprotozoals, anthelmintics and antituberculosis.

In Europe, sales of veterinary antimicrobials decreased by 47% between 2011 and 2021[7], a trend that is expected to continue due to the focus on reducing drug resistance and new EU regulations from January 2022 that ban the routine use of antibiotics in farmed animals. The new regulations mean only sick, individual animals (and not whole herds) may be administered antibiotics.

As sales of antimicrobials have decreased the search for effective alternatives, especially preventative measures, has become more of a priority. Among these therapy classes are microbiome, vaccines and anti-biofilms.

Gastrointestinal (GI) microbes play a fundamental role in animal health. In Production Animals, GI innovation is focused on the replacement of medicated feeds, improving production and even reducing methane. In Companion Animals we expect to see developments in microbiome treatments targeted at obesity, dental conditions and diabetes as well as more traditional GI diseases.

Longer term, opportunities exist for more sustainable use of antibiotics in association with other technologies.

ANIMAL SECTORS

Companion Animals

This category includes dogs, cats, small mammals, aquatic and non-food producing avian and accounts for approximately 47% of sales in animal health in Europe[3], a significant increase over 2021 reflecting the growth in pet numbers during COVID-19[4]

Demand drivers

- Pandemic-related increase in the number of pets
- Longer life expectancy of pets
- Move to smaller breeds of dogs
- Increased "humanisation" of pets

Production Animals

Livestock (cattle, sheep, pigs, etc) account for approximately 27% of spend; poultry and avian around 10% of sales

Demand drivers

- Human population growth increasing global demand for protein
- Decrease in pig meat production due to reduced export opportunities, strict environmental laws and African Swine Fever[5]
- Increasing industrialisation of meat and milk production combined with heightened animal welfare expectations

Equine

Equine accounts for just under 3% of the European market

Demand drivers

- Equine owners demand increasingly specialised services
- Increasing demand for medical care for horses
- Impact of inflation on costs of ownership

1 https://animalhealtheurope.eu/about-us/annual-reports/2022-2/key-figures-2022/
2 https://animalhealtheurope.eu/about-us/annual-reports/2022-2/key-figures-2022/
3 https://animalhealtheurope.eu/about-us/annual-reports/2022-2/key-figures-2022/
4 https://animalhealtheurope.eu/about-us/annual-reports/2022-2/key-figures-2022/
5 https://agriculture.ec.europa.eu/data-and-analysis/markets/outlook/medium-term_en
6 https://onlinelibrary.wiley.com/doi/epdf/10.1111/jsap.13132
7 https://www.ema.europa.eu/en/veterinary-regulatory/overview/antimicrobial-resistance/european-surveillance-veterinary-antimicrobial-consumption-esvac

Trends in the animal health market:

TREND	HOW WE ARE RESPONDING
1. High levels of pet ownership It is estimated that 90 million European households (46%) own a companion animal[8], with cats proving the most popular (113 million) followed by dogs (92 million) and birds (48 million). In the UK, pet ownership reached a record high of 62% of households in 2021/22, likely as a result of more time spent at home due to the pandemic. The increase in puppies and kittens should create a geriatric "boom" in six or seven years when many of these animals will require more veterinary treatment for the likes of pain management related to osteoarthritis, cancer, heart disease and kidney disease.	Animalcare is actively seeking potential partners that possess innovative technologies which we can develop and launch with exclusivity in the Companion Animals segment. In March 2022 we signed an exclusive licence agreement with Orthros Medical centred on two preclinical VHH antibody candidates. The initial focus of this collaboration is canine osteoarthritis, one of the leading reasons geriatric dogs visit the vet. Along with Daxocox, we aim to increase our market share of this large, growing market. **Link to strategic priority:**
2. Growth in pet expenditure The percentage of household income spent on animals and animal health continues to rise as launches of newer innovative medicines and new technologies[9] become available. While there is evidence that inflationary pressures are being felt by some owners, the overall effect has been small, highlighting the resilience of the pet industry.	We continue to supply a portfolio of key medical and surgical pharmaceutical products, primarily in the Companion Animals sector, and look to launch innovative and novel products to create sustainable growth. In some instances, we have been affected by significant increases to our cost of goods during 2022. As a result, we have taken mitigating pricing actions where possible while remaining mindful of market competitiveness. **Link to strategic priority:**
3. Sustainability While food production of animal-based protein is expected to decline per capita, the total global output should remain constant or increase due to human population growth. Sources of protein are likely to change too; the poultry and aqua industries should see increased demand, with the swine and ruminant industries declining in relative terms. We also expect that a reduction in antibiotic use across all species will drive an increase in vaccination and a move to less intense production systems.	Reducing our portfolio reliance on antibiotics is an important element of our strategy; this was a key rationale for our investment in STEM Animal Health Inc. which is enabling us to exploit biofilm-targeting technologies in anti-infective roles. Further information on antimicrobial resistance is provided in the Sustainability Report. **Link to strategic priority:**
4. Smaller dog breeds Smaller dogs will continue to be popular and more animals will be treated for medical conditions. Though dosing per head will reduce in smaller breeds, margins should be maintained. In Companion Animals we anticipate increased testing in the use of anti-infectives and increased adoption of vaccine prophylaxis for viral and bacterial diseases. This will result in greater focus on the therapies suited to ageing Companion Animals.	Smaller dogs tend to live longer than larger breeds so preventative products such as Plaqtiv+ and future microbiome treatments have a longer potential life span in such animals. Additionally, an ageing dog population should increase demand for future and existing products that have particular utility in the treatment of geriatric-related conditions, such as osteoarthritis. **Link to strategic priority:**

STRATEGIC PRIORITIES

Strong Finances · Key Leadership · Growth Portfolio · Business Development · Innovative Pipeline

TREND	HOW WE ARE RESPONDING

5. Humanisation of pets

More time spent at home due to coronavirus restrictions has strengthened bonds between pets and their owners. According to a study in 2021[10], 71% of owners regarded their pets as part of the family. Humanisation tends to elevate pet care on an owner's list of spending priorities, making them essential rather than discretionary.

In 2022, Animalcare launched Plaqtiv+, an innovative range of dental products, and OraStripDx, a simple diagnostic tool designed to identify periodontal disease. These products can enable dogs and cats to achieve improved dental health and wellbeing by helping manage plaque and combat bad breath. Future launches of microbiome-based products in 2023 will focus on wellbeing issues such as canine "scooting" and unbalanced gut microbiota.

Link to strategic priority:

6. Customer consolidation

With corporate veterinary businesses now accounting for almost 60% of practices in the UK, established corporate vet groups are expanding across Europe to drive future growth. These groups are showing first signs of operating on a pan-European basis with at least one initiating a Europe-wide tender process. This creates both opportunities and risks for animal health companies and increases the importance of being in multiple countries across Europe.

Animalcare has upped headcount in the dedicated corporate accounts team and has moved reporting to Group level to get closer to our key customers, better co-ordinate our resources and ultimately maximise opportunities across Europe. Taking Danilon into the UK business gives the Group more control over pricing of this equine non-steroidal treatment as well as providing an established and trusted brand to further engage with corporate customers.

Link to strategic priority:

7. Competitive landscape

The takeover of several mid-sized players in 2022 pointed to a continued appetite for consolidation in the animal health pharmaceutical industry. Additionally, by making multiple, smaller acquisitions, some well-financed companies have begun to challenge a few of the more established players. The number of companies selling generics is increasing with some big animal pharma players seeing this class of product as an opportunity to generate relatively cheap top line growth. Additionally, the corporate vet groups are registering their own generics or creating "white label" products with a generic partner.

The Group continues to invest in business development opportunities that support our focus on novel and differentiated products and the pursuit of growth in niche areas such as dental. We are also strengthening our understanding of the decision-making drivers for corporate white label generics and are assessing potential pan-European opportunities.

Link to strategic priority:

8. Increase in digital and online

In light of COVID-19 and with the economic downturn, pet owners are increasingly going online to look for advice[11] or products before visiting a vet. Younger pet owners are more likely to purchase pet care items online via subscription than their older counterparts[12].

Identicare, the Group's pet microchipping and pet owner services company, was carved out of the UK pharmaceuticals business in 2021. Under new digitally focused and experienced management, we are seeking to grow the overall online subscription-based service to pet owners centred around pet protection.

Link to strategic priority:

1 https://animalhealtheurope.eu/about-us/annual-reports/2022-2/key-figures-2022/
2 https://animalhealtheurope.eu/about-us/annual-reports/2022-2/key-figures-2022/
3 https://animalhealtheurope.eu/about-us/annual-reports/2022-2/key-figures-2022/
4 https://animalhealtheurope.eu/about-us/annual-reports/2022-2/key-figures-2022/
5 https://agriculture.ec.europa.eu/data-and-analysis/markets/outlook/medium-term_en
6 https://onlinelibrary.wiley.com/doi/epdf/10.1111/jsap.13132
7 https://www.ema.europa.eu/en/veterinary-regulatory/overview/antimicrobial-resistance/european-surveillance-veterinary-antimicrobial-consumption-esvachttps://europeanpetfood.org/about/statistics/
8 https://www.euromonitor.com/article/humanisation-a-key-driver-of-pet-product-sales#:~:text=The%20humanisation%20trend%20is%20driving,areas%20such%20as%20pet%20healthcare.
9 https://www.statista.com/statistics/308235/estimated-pet-ownership-in-the-united-kingdom-uk/
10 https://www.veterinary-practice.com/2022/demand-for-remote-veterinary-care-continues-to-rise
11 https://www.americanpetproducts.org/press_releasedetail.asp?id=1252

Business Model

By focusing our resources on the development, supply and marketing of products and services to the veterinary profession, our business model creates value for a range of stakeholders.

OUR KEY RESOURCES

People
Having the right people, capabilities and engagement across the organisation is fundamental to delivering our strategy and the long-term success of the Group.

Industry knowledge
We have extensive knowledge of the Companion Animal, Equine and Production Animal markets in which we operate and the regulations that govern them. More than 20% of our people are qualified vets.

Customer relationships
The relationships with the individual vets and veterinary groups that represent our core customers are key. Our sales force has extensive experience and knowledge of their markets and products.

Partnerships
The Group has developed a series of critical partnerships that help us strengthen our pipeline, commercialise innovative products and establish research and manufacturing capabilities and capacity.

Balanced portfolio
Animalcare operates a portfolio of around 150 brands. We aim to increase the quality of this portfolio by focusing on a smaller number of bigger, higher-margin brands with significant growth potential.

Financial platform
Our solid financial platform enables us to increase investment and leverage our stronger base to deliver future growth and value to our shareholders.

OUR KEY ACTIVITIES

Our core activities combine to create sustainable growth and long-term value for our stakeholders.

- We develop and commercialise novel pharmaceutical products for the animal health market. These are developed in-house with the help of contract research organisations, acquired from other companies or in-licensed from partners.
- Outside our direct geographic operations we seek to commercialise our products through international partnerships.
- We manufacture our products through a network of specialist contract manufacturing organisations.
- We supply products direct to our customers and via a network of specialist veterinary wholesalers and distributors.
- Using our sales and marketing capabilities, we sell products to veterinary practices and veterinary groups.
- The cash we generate from these activities helps fund investment in our people and in the pipeline of new products.

We are a business driven by our values, which are at the core of our key activities.

One team

Passion

VALUE CREATED FOR STAKEHOLDERS

Employees

Employees benefit from the ability to improve their skills and work in a challenging, innovation-driven and forward-thinking organisation.

Customers

Animalcare seeks to provide a choice of innovative and trusted products and services to support veterinary professionals and other customer stakeholders. Our agile business model and close customer relationships help ensure we are aligned with the changing needs of our markets.

Shareholders

Through execution of our growth strategy, we aim to consistently deliver a strong and resilient financial performance for our shareholders, generating attractive returns over the long term.

Keepers of animals

Our veterinary products and services – including the Group's pet reunification service provided by Identicare – help maintain or improve the health and wellbeing of animals across our markets. That brings huge benefits to owners and wider society.

Suppliers

As the Group does not own manufacturing assets it works with third-party manufacturers to supply finished products. We engage with suppliers to develop and maintain trusting long-term relationships and to create mutual value.

Partners

Our partnerships are wide ranging in scope and help ensure the success and effective operation of our business. We create value through long-term collaborations on mutually agreed terms.

Integrity

Taking ownership

Have fun

Our Strategy

We are pursuing our strategic ambition of becoming a leading player in all our markets. In 2022 we continued to focus on the five pillars of our growth strategy.

STRONG FINANCES

Financial sustainability through revenue growth, strong cash conversion, EPS growth and EBITDA margin growth

Revenue growth

Key initiatives

- Focus on segments and products with highest potential
- New product launches
- Leverage strengths across all our direct markets
- Maximise opportunities in other high growth markets through partnerships or acquisition

Progress

- New product sales of £2.1m (2021: £2.2m) predominantly driven by Daxocox and launch of Plaqtiv+ (from the STEM biofilm range)
- 0.9% revenue decline in the Top 40 products due to loss of distribution and changes in the antibiotic market

2023 Priorities

- Continue to drive operational excellence in sales and marketing
- Maximise growth potential of Daxocox in dynamic market and drive growth of Plaqtiv+ range in all markets

LINKS TO RISKS

A B C G

LINKS TO KPIs

1 4 5

Cash conversion and net debt

Key initiatives

- Maintain net debt to underlying EBITDA leverage ratio between one and two times
- Optimise inventory turnover
- Tax efficiency

Progress

- Good underlying cash conversion of 78.3% (2021: 108.8%)
- Strong balance sheet maintained with net debt at year end of £5.4m (2021: £5.3m)
- Net debt comfortably below target range

2023 Priorities

- Support investment in growth strategy by sustaining strong cash conversion within a 80%-100% range
- Maintain EBITDA leverage in the range of one to two times

LINKS TO RISKS

C E F

LINKS TO KPIs

2 6

Underlying EBITDA margin and EPS growth

Key initiatives

- Focus on higher margin products
- Operating efficiency and leverage

Progress

- Total number of brands in portfolio close to steady state target of 150
- Underlying EBITDA margin approximately in line with prior year supported by strong improvement in gross margins while managing SG&A investment
- Underlying EPS of 12.6 pence (2021: 12.0 pence)

2023 Priorities

- Continue to drive operational excellence in sales and marketing
- Evolve and align the organisation to the external market and internal opportunities to maximise effectiveness and efficiencies in order to scale profitability

LINKS TO RISKS

C E F

LINKS TO KPIs

3 4

KEY LEADERSHIP

Organisation for success; leadership strength and core capabilities

Attract, retain and develop talented people

Key initiatives

- Strengthen leadership capabilities
- Align reward to performance
- One-team culture
- Drive effective communication and collaboration
- Improve diversity

Progress

- Sandra Single joined SET as Strategic Product and Portfolio Director
- Embedded "High Challenge, High Support" leadership programme and implemented "Pioneering Professional" talent management process
- Annual mean employee engagement score of 3.88 (2021: 3.96)
- Wellbeing programme uptake in line with expectations

2023 Priorities

- Implement actions from employee engagement survey
- New Global People Portal intranet launched to improve two-way communication

LINKS TO RISKS

C D J

LINKS TO KPIs

7

Organisation for growth

Key initiatives

- Create an organisation to drive sustainable and profitable growth

Progress

- Senior Executive Team (SET) focused on delivery
- Roll out of our own-branded commercial excellence programme, supported by Group-wide CRM implementation

2023 Priorities

- Evolve and align the organisation to the external market and internal opportunities to maximise effectiveness and efficiencies in order to scale profitability
- Sustain strong momentum in embedding commercial excellence across all markets

LINKS TO RISKS

B G I

LINKS TO KPIs

1 7

RISKS KEY

- A Market risk
- B Competitor risk
- C Portfolio risk
- D Product development risk
- E Financing/Treasury risk
- F Foreign exchange translation risk
- G Supply chain risk
- H IT systems and cyber security risk
- I Regulatory risk
- J People risk

KPI KEY

1. Revenue growth
2. Underlying cash conversion
3. Basic underlying earning per share ("EPS")
4. Underlying EBITDA margin
5. New product revenue
6. Net debt to underlying EBITDA leverage
7. Employee engagement

Our Strategy CONTINUED

GROWTH PORTFOLIO

Focused portfolio in key therapy areas in growing market segments

Focus on existing core brands that generate sustainable growth and margins

Key initiatives

- Improve quality of portfolio; focus on smaller number of bigger-selling, higher-margin brands

Progress

- Focus on Top 40 products contributed to strengthened gross margins
- Daxocox is now a Top 10 selling Animalcare product and we have successfully launched the Plaqtiv+ range

2023 Priorities

- Drive growth in Companion Animals and maintain strong presence in Production Animals
- Continued focus on bigger-selling, higher-margin products
- Further investment in product launch capability

LINKS TO RISKS

C D

LINKS TO KPIs

1 3 4

BUSINESS DEVELOPMENT

Work with partners to build a pipeline of products that meets our criteria for growth

In-license or acquire products and develop network partnerships

Key initiatives

- In-license or acquire innovative pipeline or market-ready products
- Establish Animalcare as partner of choice, especially for companies selling into Europe
- Build partnerships to exploit growing global markets

Progress

- Ongoing distribution partnership with Virbac for Daxocox extended to additional markets globally
- UK Identibase business continues to develop and grow post carve out with focus on services centred around pet protection

2023 Priorities

- Continue to pursue value-creating partnerships and in-licensing opportunities

LINKS TO RISKS

B G I

LINKS TO KPIs

1 5

INNOVATIVE PIPELINE

Building a pipeline of novel and differentiated products

Launch new products and develop differentiated and innovative pipeline of products for the future

Key initiatives

- Strengthen internal pipeline of differentiated products through partnerships, in-licensing and acquisitions
- Prioritise and accelerate in-house R&D projects

Progress

- Research collaboration with Orthros Medical progressing well – focus on lead candidates and new indications for the VHH antibody technology
- Daxocox clinical studies in new indications on track

2023 Priorities

- Continued development of lead indications for the Orthros technology including initiation of clinical programmes
- Pursue potential additional indications for the Orthros technology

LINKS TO RISKS

A D E I

LINKS TO KPIs

1 3 5

For **strategy and risks key** please see **page 11**

Our Strategy in Action

Orthros Medical – Delivering on our strategy

In March 2022 we took a major step forward in the development of our longer-term pipeline through a collaboration and licensing deal with Orthros Medical, a Netherlands-based company focused on novel VHH antibody technology.

VHH antibodies have been shown to possess a number of clinical uses that are relevant in animal health. Indeed, VHH antibody products have received regulatory approval for use in human medicine.

Under the terms of our agreement, Animalcare is working in a research partnership with Orthros Medical to develop VHH antibodies in animal health indications. This collaboration provides Animalcare with access to the excellent scientists at Orthros Medical and the project is run through a joint steering committee. Animalcare will have the opportunity to license and commercialise animal health products that result from this partnership. While there is much to do to bring any new product from early stage to launch, we see significant opportunities to develop our longer-term growth portfolio through this agreement.

The licensing deal with Orthros Medical focuses on the development and launch of specific products that have already been identified.

In recognition of the inherent risks associated with new product development, we have built in milestones and "stage gates" to ensure that the level of investment is aligned to the phase of development. Consequently, investment is designed to step up as we approach and pass through regulatory approval and launch.

This is an exciting advance for Animalcare. We are delighted with how the relationship with Orthros Medical is working and the progress made in the initial phase of the collaboration. One year into our agreement, it's clear that supporting earlier stage research in tandem with experts in the field fits our model well and provides an opportunity to develop innovative products that can deliver sustainable future growth.

Derived from llamas, VHH antibodies have been shown to possess a number of clinical uses.

Our Key Performance Indicators

Financial KPIs

REVENUE GROWTH

£71.6m

Definition

Organic revenue growth including: new products versus prior year, excluding the impact of acquisitions and disposals

Why we measure this

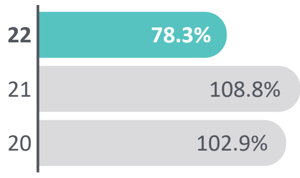
Revenue growth is an important barometer of the Group's success in delivering its strategy and is a key component of growing our profits and cash flow

Commentary on performance

Revenue for the year was £71.6m (2021: £74.0m), a decrease of 3.3% at AER (2.5% at CER)

LINKS TO STRATEGY

UNDERLYING CASH CONVERSION



78.3%

Definition

Cash generated from operations as a percentage of underlying EBITDA

Why we measure this

Our quality of earnings is reflected in our ability to turn underlying EBITDA into cash, an important enabler of investment in our innovative pipeline and people

Commentary on performance

Underlying cash conversion has averaged more than 90% over the last three financial years demonstrating our ability to generate strong and sustained levels of cash

LINKS TO STRATEGY

NEW PRODUCT REVENUE

£2.1m

Definition

Revenue from new products launched in the last two financial years

Why we measure this

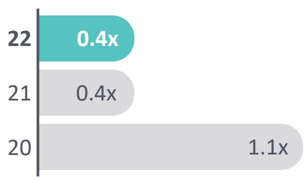
New product revenues are a key driver of growth in Companion Animals and support our strong presence in Production Animals

Commentary on performance

Growth from newly introduced products contributed £2.1m of sales principally driven by Daxocox and Plaqtiv+

LINKS TO STRATEGY

NET DEBT TO UNDERLYING EBITDA LEVERAGE



0.4x

Definition

Leverage is net debt (total debt less cash balances) divided by underlying EBITDA

Why we measure this

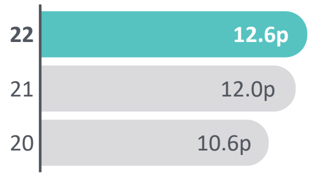
We seek to maintain a strong balance sheet with EBITDA leverage in the range of one to two times to allow capacity for investment in future growth

Commentary on performance

Net debt to underlying EBITDA leverage ratio maintained at 0.4 times

LINKS TO STRATEGY

BASIC UNDERLYING EARNINGS PER SHARE



12.6p

Definition

Underlying profit after tax divided by the weighted average number of shares

Why we measure this

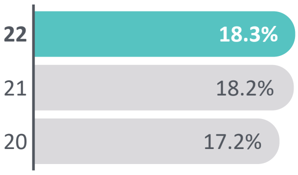
Underlying EPS is a key indicator of our performance and the return we generate for our stakeholders

Commentary on performance

Underlying EPS 5.0% ahead of 2021 at 12.6p benefiting from a lower effective tax rate

LINKS TO STRATEGY

UNDERLYING EBITDA MARGIN



18.3%

Definition

Underlying EBITDA as a percentage of sales

Why we measure this

This is a measure of the operating efficiency of the Group with focus on translation of sales growth to profit

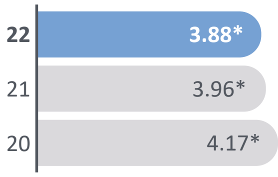
Commentary on performance

Underlying EBITDA margin is approximately in line with prior year at 18.3% reflecting improved gross margins and managing investment in our cost base

LINKS TO STRATEGY

Non-financial KPIs

EMPLOYEE ENGAGEMENT



3.88

Definition

Measure of employee engagement based on well established Gallup Q12 process

Why we measure this

Employee engagement surveys enable comparison between the Group and other companies. The primary purpose of the survey is to guide leadership about how best to improve employee engagement

Commentary on performance

The Group's 2022 engagement score declined by 2% on the prior year. The survey highlighted a positive view among employees about their ability to deliver high quality work as well as opportunities to further develop and progress in their roles

*Gallup Q12 engagement score

LINKS TO STRATEGY

STRATEGIC PRIORITIES

- Strong Finances
- Key Leadership
- Growth Portfolio
- Business Development
- Innovative Pipeline

Chief Executive Officer's Review

JENNY WINTER
Chief Executive Officer

> In 2022, the Group stepped up R&D investment as we continued to build an innovative pipeline that is capable of generating sustainable growth

Looking back at 2022, we have reasons to be pleased with several of our key indicators – not least positive margin growth and good cash conversion – as we continue to benefit from a strong balance sheet in the pursuit of our long-term growth strategy.

Strong finances

Revenues for the full year reflected a moderation in demand after the pronounced spike in post-pandemic veterinary activity seen in 2021 across Europe. Termination of certain Companion Animals distribution agreements and the application of EU regulations in Spain designed to reduce the widespread use of antibiotics in Production Animals, exerted further downward pressure on overall revenues. As a result, the headline sales figure of £71.6m was down 3.3% at actual exchange rates (2.5% at constant exchange rates).

Our focus on bigger-selling, more profitable products in our portfolio continued to deliver results, driving much improved gross margins of 56.8% (2021: 53.3%). Carefully targeted interventions on pricing also helped us mitigate the impact of inventory and logistics inflation.

56.8%
GROSS MARGIN

Following on from the significant progress we have made in recent years to reduce our debt and improve our balance sheet, the Group delivered positive cash conversion in line with our goals. As a result, net debt stood at £5.4m at the year end with leverage well below the target range of one to two times underlying EBITDA (0.4 times underlying EBITDA). Maintaining such a strong financial platform is critical to our strategy, enabling us to pursue value-creating opportunities through a combination of M&A, partnerships and pipeline projects.

Key leadership

In 2022 we continued to invest in building the skills and behaviours that will drive our business forward. Identifying and developing the next generation of leaders has been a clear theme over the course of the year with the introduction of a consistent approach to the management of our talent. This initiative is also designed to dovetail with our branded "High Challenge High Support" programme of behavioural development.

Market data show that innovative products are driving much of the growth in the animal health sector. This dynamic is hard-wired into our business strategy. It's crucial, therefore, that our people are equipped with industry-leading skills to engage with customers and explain how these new technologies can benefit animal health and wellbeing in the appropriate settings. That's why we intensified our focus on sales and marketing excellence during 2022.

3.88

ENGAGEMENT SCORE

In partnership with Gallup, we carry out an annual survey of employee engagement. Recognising that we recorded a decline of 2% in our overall 2022 score, the data we gather through this process provides us with a rich source of insights as we seek to identify areas for improvement down to team level.

We extended a warm welcome to two new Non-Executive Directors to the Company in 2022. Doug Hutchens joined the company in February while Sylvia Metayer assumed her role in May. Doug's impressive background in veterinary medicine and R&D and Sylvia's senior level commercial leadership experience are already making a positive mark on the Group.

Growth portfolio

Our product portfolio acts as both a solid platform and a driver of growth. In recent years we have refined our product line-up, concentrating attention on larger-selling, higher margin brands while disposing of smaller "tail" products, some of which offered little more than a distraction. This rationalisation programme is now effectively complete with approximately 150 brands offering a comprehensive yet manageable portfolio. Though our Production Animals business remains a valuable part of the overall mix, it is evident that the Companion Animals segment offers greater growth potential. Consequently, that's where we direct more of our investment.

In 2022, our top 40 selling brands accounted for approximately 78% of total product sales, marginally down on the prior year. It was particularly satisfying to see Daxocox, our novel treatment for osteoarthritis-related pain in dogs, comfortably enter the top 10 ranking of Animalcare products. Additionally, our Plaqtiv+ dental health range, the first product to emerge from the STEM joint venture with Kane Biotech Inc., contributed to earnings following the later than expected accreditation from the influential Veterinary Oral Health Council (VOHC).

Identicare Ltd, the Group's UK-based pet microchipping and pet owner-focused services company, which we carved out from our pharmaceutical business under specialist leadership during 2021, delivered double-digit revenue growth over the period.

Business development

Achieving growth via inorganic business development routes is a core strategic objective for the Group. This is made possible by a financial platform that has been materially strengthened in recent years. Over the course of 2022 our dedicated business development team focused their efforts on the identification and pursuit of value-creating deals that can build our pipeline, add to revenues at attractive levels of profitability and extend our operational footprint and sales and marketing reach.

Our agreement with Netherlands-based Orthros Medical, signed in March 2022, secured an exclusive licence for VHH antibody technology, with an initial focus on canine osteoarthritis. Though still in the early stages, the partnership has all the hallmarks of a collaborative template for our business.

Innovative pipeline

In 2022 the Group stepped up R&D investment as we continued to build an innovative pipeline that is capable of generating sustainable growth; we expect to further increase spend as a proportion of sales in 2023.

The aforementioned licencing and collaboration agreement with Orthros Medical has generated a number of preclinical projects exploring the potential for VHH antibodies, initially for the treatment of osteoarthritis-related pain in dogs. This is an expanding area of the market in which we are recognised for our knowledge and expertise. Following the European approval of Daxocox in 2021, we are also leveraging our product development capability to pursue life cycle management opportunities that can extend the therapeutic and commercial reach of our long-acting COX-2 inhibitor.

Summary and outlook

Though the Group fell short of its revenue expectations in 2022 due to a combination of moderating market demand and other more specific factors, we made positive progress on gross margins, helping us maintain our strong financial position, and with it our ability to invest in growth opportunities.

Looking ahead, we remain confident in the resilience of our business and the wider animal health market which has seen record levels of pet ownership in many countries. We continue to be mindful of macroeconomic uncertainties, including inflationary pressures, but we anticipate a return to revenue growth for the full year.

Our people deserve huge credit for the commitment they have shown in 2022. I'd like to record my thanks for their hard work as we continue to deliver on our long-term growth strategy.

JENNY WINTER
Chief Executive Officer

Chief Financial Officer's Review

CHRIS BREWSTER
Chief Financial Officer

> With our strong balance sheet, the Group remains well placed to deliver on our long-term growth strategy and we continue to explore business and product development opportunities

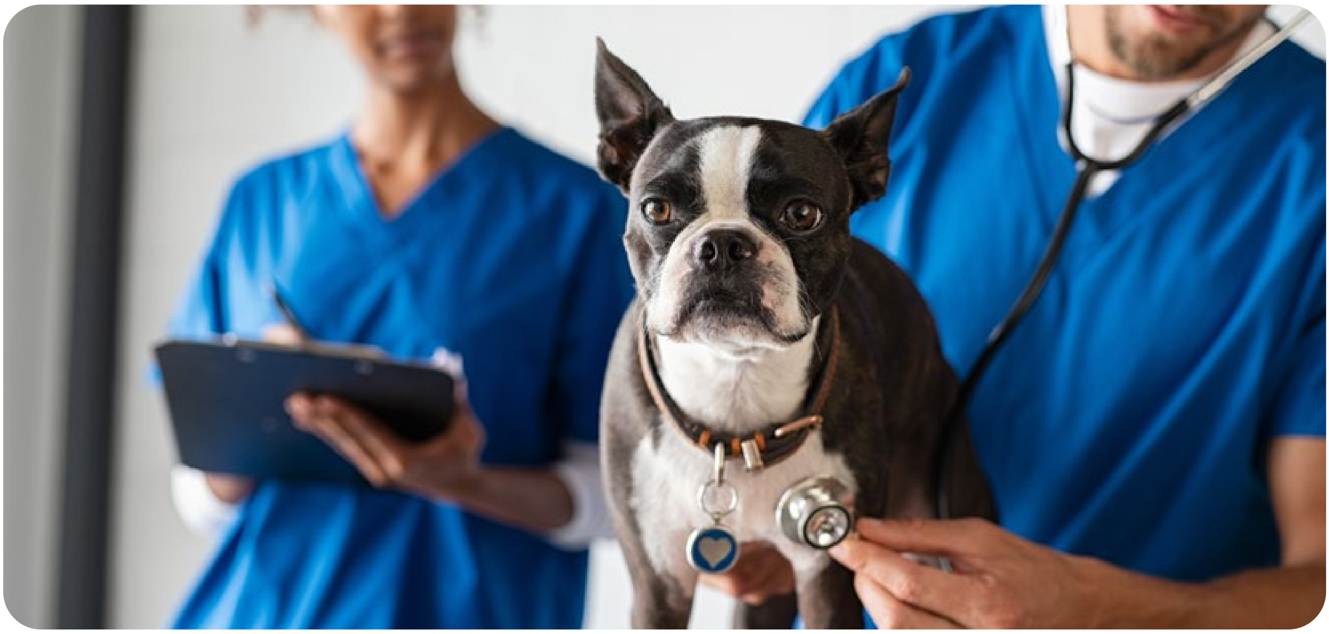
Underlying and statutory results

To provide comparability across reporting periods, the Group presents its results on both an underlying and statutory (IFRS) basis. The Directors believe that presenting our financial results on an underlying basis, which excludes non-underlying items, offers a clearer picture of business performance. IFRS results include these items to provide the statutory results. All figures are reported at actual exchange rates (AER) unless otherwise stated. Commentary will include references to constant exchange rates (CER) to identify the impact of foreign exchange movements. A reconciliation between underlying and statutory results is provided at the end of this financial review.

Overview of underlying financial results

	2022 £'000	2021 £'000	% Change at AER
Revenue	**71,616**	74,024	(3.3%)
Gross Profit	**40,659**	39,418	3.2%
Gross Margin %	**56.8%**	53.3%	3.5%
Underlying Operating Profit	**9,753**	10,593	(7.9%)
Underlying EBITDA	**13,131**	13,455	(2.4%)
Underlying EBITDA margin %	**18.3%**	18.2%	0.1%
Underlying Basic EPS (p)	**12.6p**	12.0p	5.0%

Trading activity in 2022 reflected the continued moderation of market growth across Europe from the exceptionally high levels of post pandemic-related demand in 2021. The continuing commercial focus on our larger, higher margin brands was the main driver of much-improved gross margins. The Group's strong balance sheet and good levels of cash generation allow us to continue to invest to support future growth.



Revenues declined to £71.6m (2021: £74.0m), a decline of 3.3% at AER (2.5% at CER). An analysis by product category is shown in the table below:

	2022 £'000	2021 £'000	% Change at AER
Companion Animals	**50,217**	51,326	(2.2%)
Production Animals	**15,674**	16,980	(7.7%)
Equine & other	**5,725**	5,718	0.1%
Total	**71,616**	74,024	(3.3%)

Companion Animals revenue, which continues to represent around 70% of Group turnover, declined by 2.2% to £50.2m, impacted by moderating demand levels across Europe as noted above together with the loss of distribution rights of certain key brands. In part, this was offset by sales growth from new products, which contributed £2.1m (2021: £2.2m), predominantly driven by Daxocox and Plaqtiv+, the latter launching during Q2 following the later than expected VOHC (Veterinary Oral Health Council) accreditation. In addition, Identicare, the Group's small but growing UK-based pet microchipping and pet owner-focused services business, delivered 13% revenue growth over the period. One year on from bringing in specialist leadership, we are pleased with the progress in transitioning the business to a subscription-based services model with recurring revenues.

Production Animal revenues, which are largely generated by our South Region business, declined by 7.7% versus the prior year to £15.7m, predominantly due to the application of EU laws in Spain designed to further reduce the widespread use of antibiotics.

Equine and other sales were broadly flat versus 2021 at £5.7m during a period in which we took Danilon, one of our largest brands, back into the UK business, giving the Group more control over supply and our commercial offering.

Revenues generated by our Top 40 brands, collectively accounting for approximately 78% of sales, reduced by 0.9%, predominantly impacted by the conclusion of distribution rights within our Companion Animals portfolio as noted earlier. The continuing commercial focus on these larger, higher-margin brands, together with a more favourable sales mix, are the key drivers of the 3.5% improvement in our gross margins. While the Group has been affected by inventory and logistic price increases, the net impact on gross and EBITDA margins during the year has not been significant as we have taken mitigating pricing actions where possible. However, we remain alert to the accelerating inflationary pressures impacting our overall cost base as we progress into 2023.

Underlying EBITDA declined by 2.4% to £13.1m, broadly in line with revenues. Disciplined management of SG&A costs in the light of the moderating revenues enabled us to deliver EBITDA margins at approximately the same level as the prior year. SG&A expenses increased during the year to £27.5m (2021: £26.0m) as we continue to invest in our people and drivers of future growth such as new products and pipeline projects, the latter including R&D expenditure related to the early-stage collaboration with Orthros Medical.

The underlying effective tax rate of 16.4% (2021: 24.4%) has decreased versus 2021 primarily reflecting the geographic mix of profits and the prior year one-off impact of the enactment of the increase in corporate tax rates in the UK (from 19% to 25% effective 1 April 2023) on deferred tax balances. We continue to optimise research and development tax credits.

Reflecting the points noted above, underlying basic EPS was 5.0% ahead of prior year at 12.6 pence (2021: 12.0 pence).

Chief Financial Officer's Review CONTINUED

Overview of reported financial results

Reported Group profit after tax for the year (after accounting for the non-underlying items shown in the table and discussed below) was £2.2m (2021: £0.1m loss), with reported earnings per share at 3.7 pence (2021: 0.1 pence loss per share).

	2022 Underlying results £'000	Amortisation and impairment of intangibles £'000	Acquisition, restructuring, integration and other costs £'000	**2022 Reported results £'000**	2021 Reported results £'000
Revenue	**71,616**	–	–	**71,616**	74,024
Gross profit	**40,659**	–	–	**40,659**	39,418
Selling, general & administrative expenses	**(28,547)**	(3,794)	(219)	**(32,560)**	(31,339)
Research & development expenses	**(2,363)**	(667)	–	**(3,030)**	(3,132)
Net other operating income/(expense)	**4**	–	(919)	**(915)**	(197)
Impairment losses	**–**	(918)	–	**(918)**	(2,761)
Operating profit/(loss)	**9,753**	(5,379)	(1,138)	**3,236**	1,989
Net finance expenses	**(642)**	–	–	**(642)**	(856)
Share in net loss of joint ventures	**(52)**	–	–	**(52)**	(188)
Profit/(loss) before tax	**9,059**	(5,379)	(1,138)	**2,542**	945
Taxation	**(1,487)**	725	185	**(577)**	(1,022)
Profit/(loss) for the year	**7,572**	(4,654)	(953)	**1,965**	(77)
Basic earnings/(loss) per share (p)	**12.6p**	–	–	**3.3p**	(0.1p)

Underlying EBITDA is reconciled to the statutory measures in the table above within the notes to the consolidated financial statements.

Non-underlying items totalling £6.5m (2021: £8.6m) relating to profit before tax have been incurred in the year, as set out in note 4. These principally comprise:

1. Amortisation and impairment of acquisition-related intangibles of £5.4m (2021: £8.3m). The current year charge primarily comprises amortisation in relation to the reverse acquisition of Ecuphar NV and previous acquisitions made by Ecuphar NV (£4.5m) and a non-cash impairment charge on Research & Development assets that formed part of the acquired development pipeline, the principal driver for which was manufacturing challenges that have significantly impacted the timing and costs to resume supply with appropriate commercial returns.
2. Expenses relating to acquisition, business development, integration, restructuring and other costs of £1.1m (2021: £0.3m) including the reorganisation and restructuring of our Benelux and UK operations, the latter relating to the carve-out of Identicare in 2021, manufacturing transfers and relocation of our Spain and UK offices.

Dividends

An interim dividend of 2.0 pence per share was paid in November 2022.

The Board is proposing a final dividend of 2.4 pence per share (2021: 2.4 pence per share). Subject to shareholder approval at the Annual General Meeting to be held on 13 June 2023, the final dividend will be paid on 14 July 2023 to shareholders whose names are on the Register of Members at close of business on 16 June 2023. The ordinary shares will become ex-dividend on 15 June 2023.

The Board continues to closely monitor the dividend policy, recognising the Group's need for investment to drive future growth and dividend flow to deliver overall value to our shareholders.

Cash flow and net debt

We entered 2022 in a healthy position following the significant progress made during 2021 in reducing our debt and increasing the Group's financial strength. With the net debt to underlying EBITDA leverage ratio comfortably below our stated target range of one to two times, we continue to pursue value-creating opportunities through M&A, partnerships and pipeline projects.

The Group delivered good cash generation during the year following the very strong cash conversion performance in 2021. In line with our expectations, our cash conversion moderated during the financial year, while remaining on average within the previous target 90-100% range over 2021 and 2022.

	2022 £'000	2021 £'000
Underlying EBITDA	**13,131**	13,455
Net cash flow from operations	**9,429**	14,023
Non-underlying items	**847**	611
Underlying net cash flow from operations	**10,276**	14,634
Underlying cash conversion %	**78.3%**	108.8%

Net cash flow generated by our operations reduced to £9.4m (2021: £14.0m). Working capital increased by £1.9m in the year compared to a £2.2m reduction during 2021. This movement, chiefly attributable to significantly higher receivables as a result of revenue phasing towards the year end, was largely offset by increased payables. Inventories increased by £2.7m from the lower than expected position at the end of 2021, primarily driven by normalisation of our stock profile following restocking of delayed supply together with some investment in strategic inventories to maintain strong service levels. The increase in working capital was in part offset by a £0.7m reduction in cash taxes mainly due to a combination of geographic mix of profits and lower settlement of prior year taxes.

We are targeting a year-on-year improvement in cash conversion for the financial year ending 31 December 2023, with a profile broadly consistent with the first and second halves of 2022.

	£'000
Net debt at 1 January 2022	**(5,330)**
Net cash flow from operations	9,429
Net capital expenditure	(2,794)
Investments in joint venture	(325)
Net finance expenses	(1,732)
Dividends paid	(2,644)
Foreign exchange on cash and borrowings	(715)
Movement in IFRS 16 lease liabilities	(1,291)
Net debt at 31 December 2022	**(5,402)**

Net capital expenditure of £2.8m (2021: £2.7m) largely comprises investment in our product development pipeline of £1.3m, including £0.4m in relation to the first licence milestone payment to Orthros Medical. The balance of expenditure relates chiefly to investment in our business systems, including CRM, ERP and IT infrastructure within Identicare, and the relocation of our UK office.

The net debt to underlying EBITDA leverage ratio was approximately 0.4 times, consistent with 2021 and comfortably below the Group's stated target range of one to two times underlying EBITDA.

Borrowing facilities

The Group has total facilities of €51.5m (£45.7m) to 31 March 2025, provided by a syndicate of four banks comprising a committed revolving credit facility (RCF) of €41.5m (£36.8m) and a €10.0m (£8.9m) acquisition line, the latter of which cannot be utilised to fund operations.

The Group manages its banking arrangements centrally through cross-currency cash pooling. Funds are swept daily from its various bank accounts into central bank accounts to optimise the Group's net interest payable position.

The facilities remain subject to the following covenants which are in operation at all times:

- Net debt to underlying EBITDA ratio of 3.5 times;
- Underlying EBITDA to interest ratio of minimum 4 times; and
- Solvency (total assets less goodwill/total equity less goodwill) greater than 25%.

Net of cash balances totalling £6.0m, £4.4m of the RCF was utilised at the year end, leaving headroom of £38.4m.

As at 31 December 2022 and throughout the financial year, all covenant requirements were met with significant headroom across all three measures.

Going concern

The Directors have prepared cash flow forecasts for a period of at least 12 months from the date of signing of these financial statements (the going concern assessment period). These forecasts indicate that the Group will have sufficient funds and liquidity to meet its obligations as they fall due, taking into consideration market conditions, the profile of cash generation, the Group's financial position (including the level of headroom available within the bank facilities and compliance with the financial covenants associated with these facilities), bank facility maturity and principal risks.

Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Summary and outlook

While our revenue performance, which was impacted by a combination of external and internal factors, was not as strong as expected, the Group has made positive progress on gross margins and demonstrated agility in managing our cost base in line with trading levels. Good levels of cash conversion have also maintained our strong financial platform.

Mindful of the current economic environment, we are confident in the resilience of the Group and the animal health sector, underpinned by historically high levels of pet ownership.

With our strong balance sheet, we believe the Group remains well placed to deliver on our long-term growth strategy and we continue to explore business and product development opportunities.

CHRIS BREWSTER
Chief Financial Officer

Our Principal Risks

Managing our risks

The Board has overall responsibility for the Group's risk appetite and risk management strategy. In doing so, the objective of the Board is to foster and embed an organisational culture of strong risk management to effectively execute the Group's strategy.

The day-to-day identification, management and mitigation of risk is delegated to the Group's management, executed through our Risk Management Framework (RMF). In 2022 the RMF was broadened with the formal set-up of the Sustainability Task Force (STF) to manage and address the Group's sustainability and climate-related risks as set out in the Sustainability section. In addition, and with guidance from the external advisors who supported the initial implementation of the RMF, a review is underway to further develop and refine the RMF for adoption during 2023, with emphasis on R&D, commensurate to our strategy to develop differentiated and innovative products for the future.

We believe the developments and refinements made during 2022 and planned for 2023 will further strengthen our RMF and our ability to monitor, manage and mitigate the most critical risks inherent in our strategic plan, to the benefit of our stakeholders.

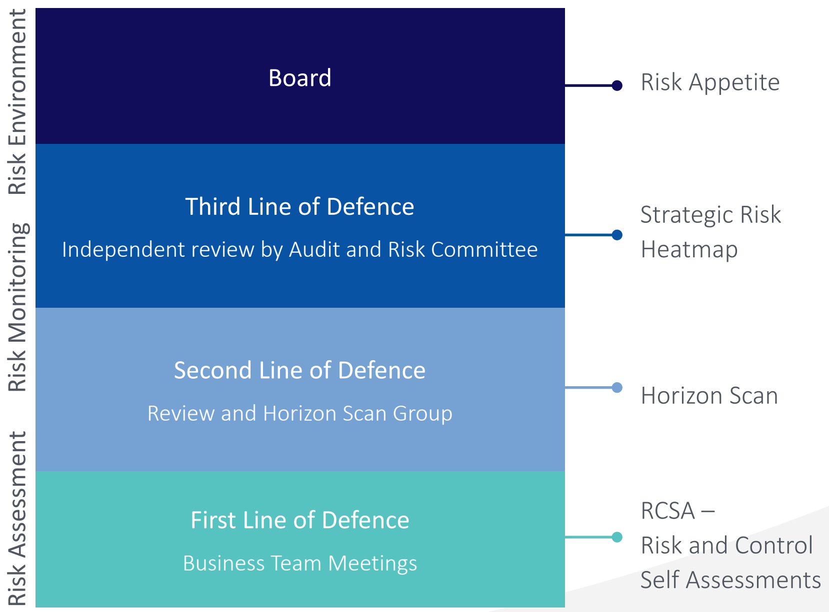
The RMF is based on an industry standard three lines of defence model (3LoD) and includes updated risk inventory, metrics and thresholds. The 3LoD model is combined with an approach to Assess, Monitor, Manage, Respond and Communicate the Group's critical risks.

To be effective, risk management relies on the engagement of all parts of the business, which is an integral part of our framework and culture. The RMF has been built in support of our regional model – Northern and Southern Europe, overseen by the Senior Executive Team. Within that structure, our regional management teams as well as Group function heads are expected to identify, manage and mitigate risks in their part of the business. They manage this process through a consistently applied Risk and Control Self Assessment (RCSA). This process includes assessing each risk for its impact and likelihood, scored both before and after applying key controls. A standardised risk-scoring methodology and template is now used to ensure a consistent approach across the Group. This part of our framework represents the First Line of Defence.

Our Second Line of Defence is executed through a small centralised team working alongside local finance managers and Group functions to lead the assessment and validation of all RCSAs from the business. This team prepares consolidated risk reporting in the form of an Horizon Scan across the organisation which in turn ensures independent oversight and consistency.

The Horizon Scan is reviewed by the executive team and mapped against the five pillars of the Group's strategy in the form of a Strategic Risk Heatmap.

In accordance with our governance practices, oversight of risk management and risk assessment is undertaken by the A&RC which, operating as our Third Line of Defence, provides updates and reports to the Board, based on the Horizon Scan and Strategic Risk Heatmap, to assist the Board in fulfilling its corporate governance duties and oversees responsibilities in relation to financial reporting, internal control and risk management.



Our Principal Risks CONTINUED

Sustainability and climate change

As noted above, the Board has overall responsibility for ensuring risk is appropriately managed across the Group. This includes risks relating to Environmental, Social and Governance (ESG) matters and climate change.

In 2021 we commenced our sustainability journey and identified issues of importance to our stakeholders and business. Through the STF, established in 2022, and in conjunction with our external ESG advisor, we have conducted a materiality assessment and developed a sustainability materiality matrix to help us identify and prioritise the issues that matter most to our business and stakeholders.

The STF has assisted in the identification of climate-related risks and has overseen modifications to our RMF, to ensure that it captures climate-related risks.

COVID-19

We have continued to monitor the operational impact of COVID-19 on the business during the financial year. While the virus has not had a material impact on our trading performance during 2022, the pandemic has had, and may continue to have, an adverse effect on our supply chain as we experience disruptions or delays in shipments of certain products or components of our products.

Ukraine

Russia's invasion of Ukraine has had little direct impact on our revenues. Our sales to Russia, while not material, were ceased. However, the conflict has created some additional supply chain uncertainty which we will continue to monitor.

Principal risks

We map all aspects of our risks against six categories that best outline our key challenges, namely: strategic, financial, operational (operations and technology), regulatory compliance, legal and people.

We believe that our most significant challenges are strategic in nature. Our strategic plans for the business are based on organic and inorganic growth as we continue to pursue geographical expansion and seek new product opportunities. The table below describes the current principal strategic and other risks and uncertainties facing the Group. In addition to summarising the strategic risks and uncertainties, the table below gives examples of how we mitigate those risks.

STRATEGIC PRIORITIES

Strong Finances
Growth Portfolio
Innovative Pipeline
Key Leadership
Business Development

TREND KEY

Up
Down
No change

RISK KEY

L Low
M Medium
H High

1 MARKET AND ECONOMIC RISK

M

Detailed Risk

Animal health market growth has moderated across Europe during 2022 – there is a risk of further decline in the market driven by macroeconomic uncertainty.

In certain territories the veterinary market continues to trend towards consolidation and growth of corporate customers and buying groups who are looking for value from the products and services we provide.

Potential Impact

Reduction in consumer confidence and spending on veterinary products and services in light of inflationary pressures.

The continuing emergence and growth of corporate customers and buying groups represents an opportunity for sales volume growth but may result in reduced margins through leverage of buying power.

Existing Mitigation Controls

Veterinary is considered to be an essential service and our product portfolio largely consists of pharmaceuticals used in the vet practice which are less prone to pet owner discretionary spending pressure.

We continue to develop and strengthen our relationships with our larger customers, managed through dedicated key account teams, with support from the Sustainability Task Force in regard to ESG, to better serve our changing customer base and their evolving requirements, both on a national and a European basis.

2 COMPETITOR RISK

M

Detailed Risk

Launch of competitor products against our key brands, for example other generic or more innovative products.

Although our product portfolio is broad, the Top 40 products include a mix of some strong brands and well-established mature products, for which the market may be attractive to competitors.

Potential Impact

Revenues and gross margins may be adversely affected should competitors launch competing generic or superior (novel) products.

Operating costs may increase to protect market share.

Existing Mitigation Controls

We are increasing focus on life cycle management strategies for our key brands.

We monitor new product registrations and competitor launches and develop commercial and marketing responses accordingly to mitigate competitor impact.

We are continuing to seek to strengthen our product portfolio through strategic partnerships and we are exploring a number of opportunities, including novel pharmaceuticals.

Our Principal Risks CONTINUED

3 PORTFOLIO RISK

Detailed Risk

Approximately 36% of the Group's revenues are derived from products sourced from our distribution partners, which are heavily driven by the associated contractual terms.

Potential Impact

Loss of one or more distribution contracts may reduce overall sales.

Where we are successful in developing and growing the market, the distribution partner may terminate the contract through geographic expansion of their own footprint or a different route to market, resulting in lost sales.

Distribution may cease due to change of control of the contracting parties.

Existing Mitigation Controls

Continue to explore and secure new distribution opportunities. A New Product Opportunity process is in place to provide robust commercial and contractual assessment of new partner products.

Low quality distribution products remain subject to portfolio optimisation.

Significant existing contracts are reviewed to assess and mitigate business continuity risks, where possible.

Build and grow our owned and long-term licence product portfolio to reduce reliance on third-party distribution partners.

4 PRODUCT DEVELOPMENT RISK

Detailed Risk

Failure to successfully register and launch products from our pipeline, including those that we develop through license.

Projects that initially appear promising may be delayed or fail to meet clinical or commercial expectations or face delays in regulatory approval.

Potential Impact

Significant delay or failure in launching a product from our pipeline could adversely affect our ability to deliver revenue and meet shareholder expectations.

Failure of a project in the development phase, or where we are unable to recover the costs incurred in developing and launching a product, would result in impairment of recognised intangible assets.

Existing Mitigation Controls

Robust pipeline monitoring processes are in place. The pipeline is discussed regularly by senior management, including the CEO and CFO.

The Group's objective is to create a balanced pipeline in terms of risk and reward and to establish a broader investment approach to launching new products other than from our own pipeline.

In respect of significant new product launches, detailed sales and marketing plans are established and evolved over time, with progress regularly monitored against these plans by our commercial teams.

STRATEGIC PRIORITIES

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Key Leadership
Business Development

TREND KEY

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No change

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H High

Other risks

Beyond strategic risks as outlined above, the following tables show other key risks that are potentially impactful in executing our strategic plan. It is our perspective that in order to execute successfully we need to maintain strong finances and an efficient operation that is compliant with the laws and regulations of each country of business – all of which needs to be supported by the best people with the right skills to execute against our strategic plan.

Financial strength

We carefully track our financial performance against a wide range of financial measures – including capital, liquidity and margin. We also recognise that our results are subject to foreign exchange translation exposure, which is closely monitored and reported. We acknowledge that our future growth is highly dependent on a solid financial platform and strong balance sheet and have a range of risk assessments associated with both, including:

5 FINANCING/TREASURY RISK

L

Detailed Risk

Debt facilities are committed for a finite period and we need to plan to renew our facilities before they mature and guard against default. Our loan agreements also contain various covenants with which we must comply.

Potential Impact

Investing for growth constrained by lack of access to capital/financial resource and/or reduced profitability.

Existing Mitigation Controls

We continue to focus on maintaining both strong cash conversion and a strong balance sheet with a target net debt to EBITDA leverage within the one to two times range, reducing the risk of non-compliance with covenants.

Our existing banking facilities through a syndicate of four banks, with whom we have strong relationships, are in place until 31 March 2025. A review of our facilities will be conducted during FY23 with the intention to renew well in advance of the 31 March 2025 maturity date.

6 FOREIGN EXCHANGE TRANSLATION RISK

M

Detailed Risk

The majority of the Group's revenues are denominated in euros. However, the Group's presentational currency is sterling and therefore the reported revenues, profits and net debt levels will be impacted by exchange rates prevailing during the relevant financial period.

Potential Impact

There may be variability in our reported results caused by significant fluctuations in the GBP:EUR exchange rate.

This may impact our net debt to EBITDA leverage covenant depending on volatility and timing as the income statement and balance sheet may be translated at different rates.

Existing Mitigation Controls

We carry out a central review of foreign currency exposures and we assess possible hedging strategies to mitigate risk via derivatives.

Matching currency flows and financing will limit the covenant exposure.

The Group presents key financial measures on a CER basis to enable shareholders to assess performance with the impact of foreign exchange eliminated.

Operational performance

The success of our operation relies heavily on both our supply chain and technology platforms, therefore we highlight below how we manage, monitor and mitigate those risks.

7 SUPPLY CHAIN RISK

M

Detailed Risk

As the Group does not own any manufacturing assets, it relies extensively on a large base of third-party manufacturers for supply of finished products, whether our own brands or those sold on behalf of our partners via distribution arrangements.

Potential Impact

Any disruption, interruption or failure of supply from our third-party suppliers, whether pandemic-related or otherwise, could result in lost sales and damage the Group's reputation with its customers.

Rising inflation impacting cost of product and adversely affecting margins.

Manufacturing transfers to resolve longer-term supply issues may require additional regulatory approvals, which could result in additional costs and/or delays.

Existing Mitigation Controls

Our supplier base is continually under review with the objective of consolidating our key products with reliable suppliers.

Under the umbrella of the Group's key partner management programme we continue to invest resource in strengthening ties with our existing supplier base, together with managing and supporting our suppliers to deliver quality products on time and in full to our regulatory specifications.

We have allocated more dedicated finance resource to the monitoring and impact of inflation during 2022 and have taken mitigating pricing actions where possible.

8 IT SYSTEMS AND CYBER SECURITY RISK

H

Detailed Risk

The Group relies heavily on information technology and key systems to support the business.

The risk of cyber attacks that cause system disruption and the potential for data and financial fraud, is increasing.

Potential Impact

A general outage of our IT systems may cause disruption to, or prevention of, normal operations, and/or additional costs.

Cyber attacks could result in system and business disruption and/or impact availability of data.

Failure to adequately protect customer (and others') data may result in a breach of GDPR legislation and/or financial fraud.

Existing Mitigation Controls

The Group has maintained focus on mitigating the increasing cyber threat while accommodating remote working practices, including:

- Continued investment in our cloud-based IT systems and security tools to safeguard the IT infrastructure.
- We engage with security-aware, reliable and certified IT service global providers.
- Internal policies surrounding security, user access, change control and the ability to download and install software.
- We hold global cyber insurance which provides specialist technical and legal support in the event of a cyber incident.

During 2022 we have conducted wide-scale security testing to reduce our risk of phishing attacks. We have conducted a critical data assessment to categorise our data and recommend appropriate safeguards.

STRATEGIC PRIORITIES

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Regulatory compliance

Given we operate in a highly regulated market, it is evident that the success of our business is dependent on compliance with product regulations in each country of operation, therefore we highlight below how we manage, monitor and mitigate those risks.

9 REGULATORY RISK

M

Detailed Risk

We operate in a highly regulated animal health environment which is designed to ensure the safety, efficacy, quality and ethical promotion of pharmaceutical products.

Failure to meet or adhere to regulatory standards could affect our ability to register, manufacture or promote our products.

Potential Impact

Non-compliance with regulatory requirements may result in delays to supply and/or lost sales.

Delays in regulatory reviews and approvals could impact the timing of a product launch and impact sales.

Brexit has resulted in additional regulatory and quality control requirements and associated costs.

Existing Mitigation Controls

The Group Technical and Regulatory team has established systems, which were subject to significant investment during 2021, and procedures to monitor and maintain compliance, which are subject to regular internal and external audits.

Regular dialogue is maintained with relevant authorities in each country to ensure we retain a thorough understanding of regulatory changes.

People

In order to successfully deliver our growth strategy in a highly regulated business, we need to attract and retain a high-calibre and diverse pool of talent, therefore, our people risk is managed, monitored and mitigated as follows.

10 PEOPLE RISK

M

Detailed Risk

Failure to structure and resource the business properly to deliver our strategy.

We may not be able to attract, develop and retain high-calibre, diverse and experienced individuals in key roles.

Potential Impact

Failure to structure and resource our business properly could result in:

- Loss of expertise.
- Potential business disruption.
- Insufficient resources to deliver strategy.
- High cost of organisational restructuring in certain countries.

Existing Mitigation Controls

We want to focus on key areas that will maximise individual potential and increase organisational capability so that we can position Animalcare as a “Great Place to Work”.

This includes:

- A strong performance management process supported by our Competency Framework.
- Competitive rewards and benefits through regular benchmarking.
- Focused development including our “High Challenge High Support” leadership and “Pioneering Professional” programmes.
- New Global Recruitment and Onboarding framework.
- Global employee assistance programme to support mental and physical wellbeing as well as personal development.

We continue to use a team of highly skilled contractors to bridge short-term gaps in key resource areas and support key project delivery.

Our Stakeholders

Our key stakeholders and how we engage with them

The Board considers its key stakeholders to be the Group's employees, customers, the Company's shareholders, suppliers, the communities and environment in which we operate.

OUR PEOPLE

Why we engage

Having the right people, capabilities and engagement across the organisation is fundamental to delivering our strategy and the long-term success of the Group. Our ongoing objective is to create a high performing business driven by a skilled, unified and committed team.

Stakeholder key interests

- Career development
- Reward and recognition
- Engagement
- Training and development
- Wellbeing
- Health and safety

How we engage

We seek our people's views on a regular basis, notably through our annual Gallup survey which identifies opportunities for improvement and allows us to track the evolution of engagement from year to year.

Employees are compensated through incentives related to performance targets while individual and team development programmes create an environment that fosters continuing learning and growth. Recognising the importance of mental and physical health, we provide a confidential counselling and information service alongside a tailored programme to support wellbeing.

The increasing role of digital tools provides another opportunity to engage with our people. An enhanced Company intranet is helping to inform and connect our team.

CUSTOMERS

Why we engage

As the veterinary market continues to evolve, understanding the needs of our customers enables us to support them as a trusted partner. We continue to work closely with veterinary professionals and other stakeholders to ensure we are aligned with their changing needs.

Stakeholder key interests

- Safety, quality and reliability
- Product availability and effectiveness
- Competitiveness
- Our availability and responsiveness
- Customer relationships
- Compliance
- Range of products
- Sustainability of products and business practices

How we engage

Regular meetings with veterinary practices and larger veterinary groups help us understand the evolving needs and attitudes of our customers as well as providing a platform for commercial contract negotiations. Product launch and training events keep customers abreast of innovative new treatments. We also provide information about our business through a range of digital channels and participate in industry forums and events to engage with a range of customer types.

SHAREHOLDERS

Why we engage

Trust from our shareholders is key to delivering our strategy as access to capital will be important to the long-term success of our business. We ensure that we provide fair, balanced and understandable information to shareholders, potential investors and investment analysts and work to ensure that they have a strong understanding of our strategy and performance.

Stakeholder key interests

- Financial performance
- Governance and transparency
- Operating and financial information
- Confidence and trust in the Group's leadership team
- Total shareholder returns

How we engage

The Group provides regular updates to the market in line with AIM requirements and encourages an ongoing dialogue through investor roadshows, meetings and presentations as well as consulting on relevant topics. The dedicated investor section of the Company's website provides valuable information for existing shareholders and potential investors.

PARTNERS

Why we engage

A central aim of our Company strategy is to bring innovation to our customers through development of new products. With this in mind we engage with partners – and potential partners – that possess new technologies which promise to complement our R&D pipeline or existing portfolio of animal health treatments. Recent examples include the STEM joint venture with Kane Biotech Inc., and the early-stage licence agreement with Orthros Medical to research VHH antibody candidates, initially in canine osteoarthritis.

Stakeholder key interests

- R&D capability
- Animal health regulatory experience
- Track record of commercialising new products
- Attractive returns on successful market penetration
- Long-term trusting relationships

How we engage

Key members of the Animalcare team are involved in scanning for and assessing the potential of pipeline and portfolio partners. We apply a range of methods to identify these opportunities including industry networks, investor conferences and through links with the financial community. Once partnerships have been struck, we regularly engage through meetings and other forums that foster collaboration and co-ordination between the parties.

SUPPLIERS

Why we engage

As the Group does not own any manufacturing facilities, it relies extensively on a large base of third-party manufacturers for supply of finished products, whether our own brands or those sold on behalf of our partners via distribution arrangements. We need to maintain trusting relationships with suppliers and partners for mutual benefit and to ensure they are meeting our standards and conducting business ethically.

Stakeholder key interests

- Quality management
- Cost-efficiency
- Long-term relationships
- Responsible procurement, trust and ethics

How we engage

Under the umbrella of the Group's key partner management programme, we meet with specialist veterinary wholesalers and distributors as well as key suppliers that between them represent 70% of purchasing spend. We carry out quality management reviews and facilitate supplier forums and networking meetings.

COMMUNITIES AND ENVIRONMENT

Why we engage

Animalcare is committed to being a responsible member of our community and considers the environmental impact of our operations.

Stakeholder key interests

- Sustainability
- Animal welfare
- Community

How we engage

We aim to conduct our business in a sustainable way, in line with the expectations of the communities in which we live and work. Active membership of animal and health trade associations provides the Group with an important voice on key industry topics and we support local and national charitable partnerships, including through employee-matched fundraising.

s172 Statement

The following describes how the Directors have regard to the matters set out in Section 172(1) of the Companies Act 2006, to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so consider (among other matters):

- The likely consequence of any decision in the long term
- The interests of the Company's employees
- The need to foster the Company's business relationships with suppliers, customers and others
- The impact of the Company's operations on the community and the environment
- The desirability of the Company maintaining a reputation for high standards of business conduct
- The need to act fairly between members of the Company.

This section forms the Directors' statement under section 414CZA of The Companies Act 2006.

Key Board discussions and decisions

The Board received trading, financial and operational updates from the CEO and CFO and updates on team wellbeing, engagement and interactions with the Group's customers, suppliers and investors. An update was received from the Remuneration and Nomination Committee on progress with the selection of an independent Non-Executive Director, resulting in a recommendation to the Board to appoint Sylvia Metayer. The Audit and Risk Committee provided updates on the Group's risk management framework with the inclusion of climate change as an evolving risk and an outline of the Group's plan for its sustainability journey. Key discussions, decisions and considerations during the year to 31 December 2022 are set out below:

EMPLOYEE ENGAGEMENT

The Board received and considered a presentation on the results of the employee engagement survey and the areas of focus and action to be led by the People and Culture team for the coming year.

Considerations

Knowing that the Board will review and discuss the feedback provided by employees who completed the survey is critical for employees to engage in the process and for positive changes to be implemented. When determining which actions would be implemented, the Board considered the financial consequences and the impact on long-term value and growth for the shareholders.

APPOINTMENT OF NEW NON-EXECUTIVE DIRECTOR

The Board approved, in principle, the appointment of a new Non-Executive Director.

Considerations

It is important to shareholders and potential investors that the Company is led by a Board with the right combination of skills and experience to support the Company's strategic plans. After a rigorous selection process, the Board was able to appoint a candidate with the requisite level of financial and audit experience.

ORTHROS MEDICAL COLLABORATION

The Board approved the Group entering into two early-stage agreements with Orthros Medical, a company focused on the research and early development of VHH antibodies.

Considerations

The partnership represents a key building block in the Group's long-term growth strategy, offering the potential to expand product ranges to meet evolving customer needs.

DIVIDEND

The Board agreed the final dividend for 2021 of 2.4 pence per share and in September it agreed an interim dividend of 2.0 pence per share.

Considerations

The Board considered the Company's capital position and financial performance, together with the long-term investment needs of the business, while taking into account dividend flow to deliver overall value to our shareholders.

EXECUTION OF STRATEGY DURING FY 2023

The Board received presentations from senior management including on the Budget for FY 2023 and potential M&A opportunities.

Considerations

The Board considered the forecast financial performance, in particular cash generation and net debt to underlying EBITDA leverage ratios, while assessing M&A opportunities to support delivery of our strategy and long-term growth.

Sustainability

Animalcare is committed to the environmental, social and governance (ESG) pillars of sustainable development.

From a Group perspective we are at the early stages of our sustainability journey. In November 2021, a small team led by the Chief Financial Officer met to discuss the broader issue of sustainability and relevant Company-wide ESG issues. This year we have created a separate, dedicated Sustainability Task Force (STF). This body advises on aspects of environmental and social sustainability while taking responsibility for the Group's sustainability agenda and strategy. Subsequently, we have begun to identify material issues of importance to our stakeholders and their potential impact on our business. This will help guide our approach in the coming years.

We have categorised activities under each of the three pillars of sustainability.

ENVIRONMENT

Climate change and greenhouse gas emissions

In 2020, under the umbrella of our strengthened Risk Management Framework, we designated climate change as a global issue with potential implications for the Group. Our initial work in this area addressed the carbon footprint of our UK operations. In the UK, Animalcare Ltd has achieved carbon neutral status as part of a commitment to run our business sustainably. We undertook a detailed assessment of our carbon emissions (UK-based operations) and have made reductions while also instituting offsetting measures. Building upon this work, we broadened our approach in 2022 to include Scope 1 and Scope 2 greenhouse gas emissions for Group-wide operations in Europe.

Our Group[1] energy usage and carbon emissions

STREAMLINED ENERGY AND CARBON REPORTING (SECR)

		2022		2021 (restated[1])	
Scope	Activity	**CO_2e**	**kWh**	CO_2e	kWh
Scope 1	Company car travel	**449**	**1,662,021**	391	1,444,344
Scope 2	Grid supplied electricity	**33**	**125,489**	55	207,880
Intensity ratio (tCO_2e per £m revenue)		**6.7**		6.0	

1 (Germany, Italy, Portugal, Spain, UK, Belgium. 2021 restated to include these countries)

We have used the EU-27 factor 2020 to calculate our total CO_2e emissions figures.

The increase in Scope 1 emissions is driven by a return to regular business travel, in particular our field sales teams, following the COVID-19 pandemic. The STF will review and recommend actions in the light of this increase during 2023.

CARBON OFFSET

To help offset emissions, we participated in the Brazil Verified Carbon Standard REED project. In April 2021, Animalcare planted more than 200 native British broad-leaved trees at a primary school close to our UK offices.

SUPPLY CHAIN AND GREENHOUSE GAS EMISSIONS

Animalcare works with third parties to manufacture finished products while engaging with other partners to enable our international supply chain. Upstream emissions include those generated by a supplier's distribution activities and the production of raw materials or components purchased by the Company. Downstream covers emissions generated by the use or disposal of end products, as well as business travel.

Value chain emissions (Scope 3) represent a significantly higher proportion of our carbon footprint than operational emissions (Scope 1 and Scope 2). Calculating then eliminating these emissions is a challenge that requires effective partnerships built on trust. As we develop our sustainability strategy, we will consider further actions to estimate and reduce our value chain emissions.

Packaging and plastic offsetting

Flexible packaging keeps pharmaceuticals and medicinal products sterile and protected while safeguarding against tampering and counterfeiting. However, though useful and resource-efficient in many ways, its low volume and low weight properties present a challenge once this packaging becomes waste.

We recognise the environmental impact caused by use of plastics in our business and supply chain and are taking steps to develop more sustainable packaging. Where plastic remains the most viable packaging solution, we are also exploring offsetting as an interim solution while we explore opportunities to move away from virgin plastic and mitigate plastic waste.

Antimicrobial resistance

Antimicrobial resistance (AMR) occurs when bacteria, viruses, fungi, and parasites evolve over time and learn to dodge the effect of medicines. As a result, treatments become ineffective and infections persist, increasing the risk of spread to others. The overuse and misuse of antibiotics in both humans and animals have accelerated the process by which bacteria become resistant to this important class of drugs, threatening the ability to treat common infections.

AMR is a systemic risk that will impact multiple sectors including food and agriculture, pharmaceuticals, healthcare, and insurance industries. According to the World Bank, by 2050 AMR could shrink global GDP by as much as 3.8% while global animal production could decline by between 2.6% and 7.5% per year. Within the European animal health market, sales of veterinary antimicrobials decreased by 47% between 2011 and 2021.

Reducing our portfolio reliance on antibiotics, both in Production and Companion Animals, is a key focus which led to our investment in STEM Animal Health Inc. to exploit biofilm-targeting technologies in anti-infective roles. A glue-like substance that provides protection from the environment, biofilms can make bacteria up to 1,000 times more resistant to antibiotics, antimicrobial agents, disinfectants, and the host's immune system. Anti-biofilm technology can overcome these barriers, making conventional treatments more effective, potentially at more sparing doses.

SOCIAL

Our people

TALENT MANAGEMENT AND PEOPLE DEVELOPMENT

We aim to attract, develop, and retain talented people, building leadership capabilities, creating a one-team culture and driving effective communication and collaboration.

During 2022, we began to implement our Talent Review Process supported by our competency framework. This will enable us to define what success looks like in each role and identify strengths and development needs so we can support everyone to become the best version of themselves. This framework will also help us identify high potential employees who could fit into future leadership positions.

Our branded "High Challenge High Support" leadership programme will continue to support our leaders by challenging the comfortable and comforting the challenge so they can model excellence within our organisation and offer the right balance of support to their team members.

To help develop our next generation of senior leaders we kicked off with the launch of our "Pioneering Professional" programme. This is based on the central mindset of "Responsible Initiative" with a set of seven key skills. These "Pioneering Professionals" will be allocated to cross-country and cross-departmental projects to help further develop their potential and grow into senior executive roles within Animalcare Group.

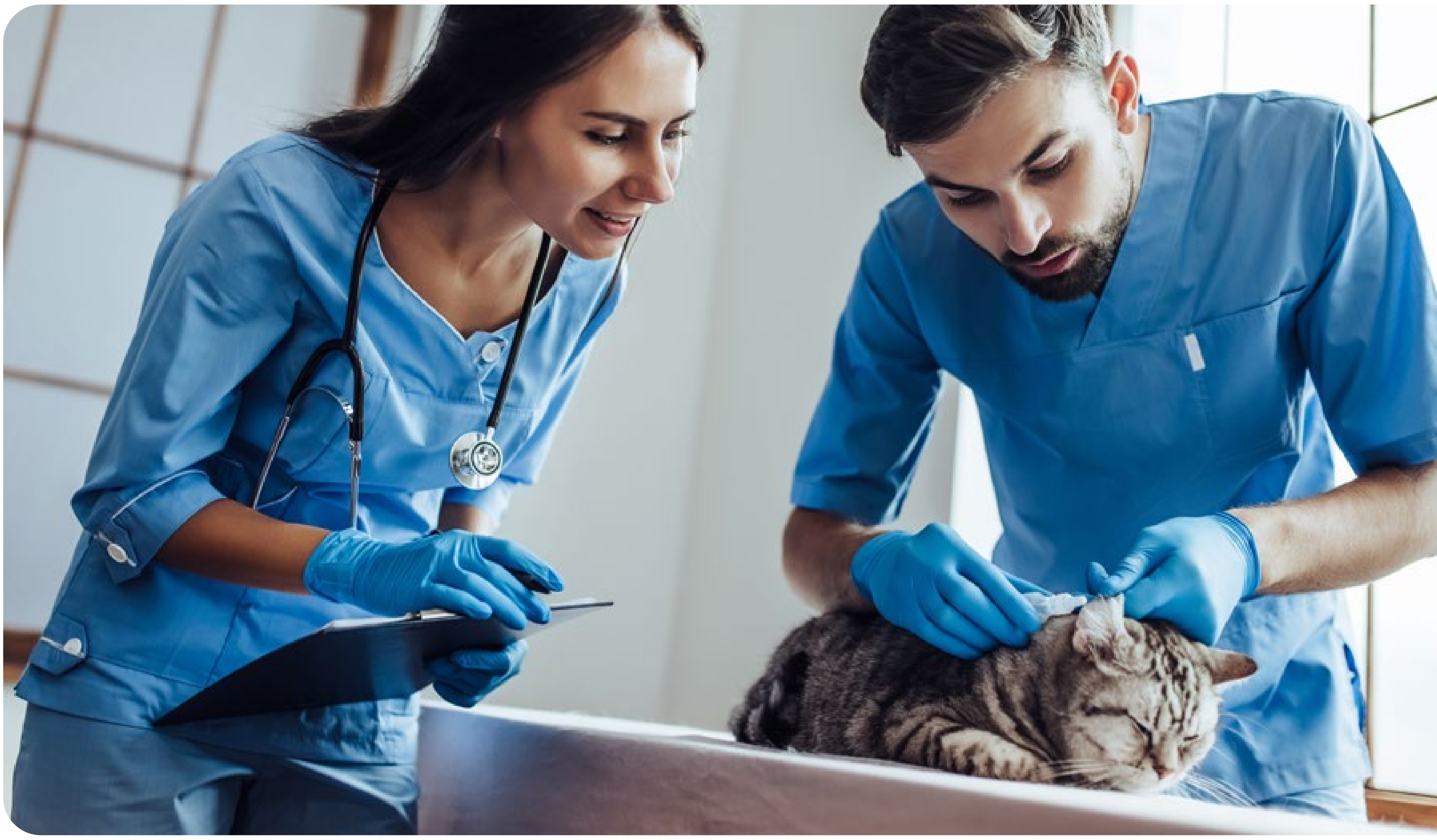
WELLBEING

To support our teams, during 2021 the Group launched an employee assistance programme: *Smile@Animalcare*. This includes a confidential around-the-clock counselling and information service to assist employees with personal or work-related challenges that may affect health, wellbeing or performance.

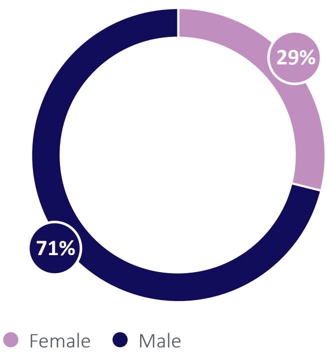
We will further focus on activities to support our team members' personal resilience and wellbeing. This includes the launch of our Global Wellbeing & Resilience Strategy, *We Care*, in order to support our team members with personal resilience.

DIVERSITY AND INCLUSION

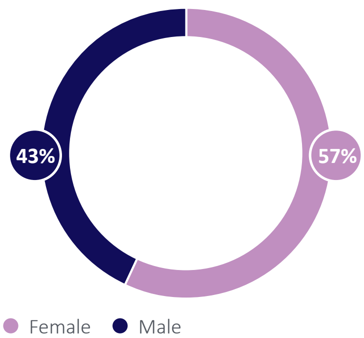
Animalcare recognises the benefits of diversity, including gender balance, and is committed to creating an inclusive culture, free from discrimination of any kind. This extends to Board appointments.



BOARD GENDER DIVERSITY



SENIOR EXECUTIVE TEAM



Recognising that diverse and inclusive workplaces earn deeper trust and more commitment from their employees, a Diversity and Inclusion Task Force has been created to review our current approach, build on activities and implement a formal strategy across the Group.

Following the 2022 appointment of Sylvia Metayer and Doug Hutchens, and the retirement of Nick Downshire, the Board currently consists of 71% (five) male and 29% (two) female members. The Senior Executive Team is made up of 43% (three) male and 57% (four) female members.

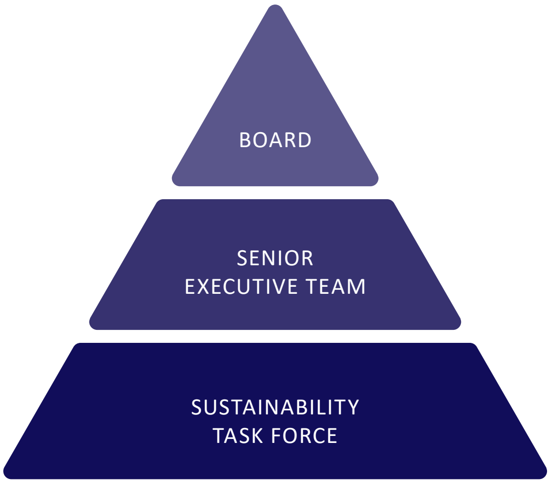
Future appointments will continue to be made on merit, with due consideration given to the need for diversity, and to complement the existing balance of skills and experience on the Board.

Sustainability CONTINUED

GOVERNANCE STRUCTURE

In September 2022 we held the first meeting of our Sustainability Task Force (STF) made up of Chris Brewster, our CFO, and a cross section of employees representing key functions and our geographical presence.

The composition of the STF is built upon a foundation that aligns with and complements the existing business model and organisational structures. This kind of governance structure is typically more successful.



Members of the STF will take collective responsibility for the Group's sustainability agenda, the implementation of a sustainability action plan linked to the delivery of our strategy and will review the internal sustainability scorecard each quarter.

Stakeholder engagement

Throughout the year we utilised the Animalcare Group materiality assessment as a vehicle with several stakeholders to address their concerns, explore sustainability areas of mutual interest and share priorities.

This informal dialogue showed that there is increasing demand from stakeholders to understand our environmental strategy, including our approach to climate change, responsible animal testing and ethical procurement and sales.

We plan to engage with stakeholders more formally during 2023 and continue to embed sustainability into our business in an agile and prioritised way.

SALES AND MARKETING

Our values and behaviours (one team, passion, integrity, taking ownership, have fun) guide employee conduct along with the Group's Code of Conduct and supporting policies which help us ensure we do business in the right way.

SUPPLY CHAIN AND RESPONSIBLE PROCUREMENT

We work with key suppliers to understand and develop risk mitigation strategies, end to end. We are also investing in "Partner Management" to strengthen ties with our existing supplier base, and we hold regular engagement meetings with key suppliers that represent 70% of purchasing spend.

Sustainability objectives and development of a Sustainability Action Plan

From the materiality assessment we prioritised six initial high-level objectives to help build the foundations of our sustainability strategy.

SUSTAINABILITY STRATEGY

Objective 1: Create a formal governance structure with remit and terms of reference to effectively implement sustainability strategy across the business.

Objective 2: Develop and publish an Animalcare Group sustainability action plan (and supporting internal scorecard) for 2023 and beyond.

CLIMATE CHANGE AND CARBON FOOTPRINT

Objective 3: Expand reporting of Scope 1 and Scope 2 greenhouse gas emissions for Animalcare Group beyond that of Animalcare's UK trading subsidiary. Initiate Scope 3 reporting.

Objective 4: Assess the feasibility of achieving carbon neutral status for the Animalcare Group by end of financial year 2025. Post the feasibility assessment, initiate roll out of a regional phased approach.

SUPPLY CHAIN AND RESPONSIBLE PROCUREMENT

Objective 5: Establish a screening process across Animalcare Group's major suppliers to highlight any risks associated with modern-day slavery and human rights.

SUSTAINABLE PACKAGING

Objective 6: Develop a Group-wide approach to sustainable packaging with both reduction and recycling.

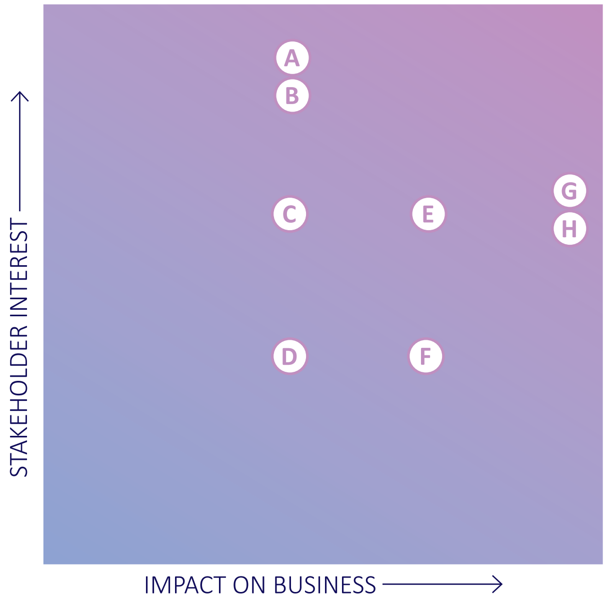
The above goals will act as the starting point for a formal framework that will implement our corporate commitments and develop a relevant Sustainability Action Plan (SAP), ultimately helping create value for the Group in line with our business strategy. As the SAP evolves it will address internal risk drivers identified within our risk management framework and define the Group's actions to respond to external stakeholder expectations, including those of potential investors and shareholders.

OUR MATERIALITY ASSESSMENT

Materiality

To guide and support the development of our sustainability strategy, we undertook an initial materiality assessment via an internal employee focus group and informal stakeholder engagement. From this, we have identified the material issues of importance to our stakeholders and their potential impact on our business.

MATERIALITY MATRIX



- (A) Climate change, energy and water management
- (B) Animal testing (animal welfare, 3Rs – replacement, reduction, refinement)
- (C) Antimicrobial resistance
- (D) Diversity and inclusion
- (E) Supply chain and responsible procurement
- (F) Packaging
- (G) Employee wellbeing, health and safety
- (H) Sales and marketing ethics

This will help guide our strategy by identifying the issues that matter most to Animalcare and our stakeholders and shows where we can have the most positive impact.

Board of Directors

> The changes to our Board in 2022 have further strengthened its independence and we are well-positioned for long-term growth
>
> **JAN BOONE**
> Non-Executive Chair

Non-Executive Chair

Appointment:
Jan has been Non-Executive Chair of the Group since 2017 following the acquisition of Ecuphar NV.

Committee membership:
Member of the Remuneration and Nomination Committee.

Responsibilities, relevant skills and experience:
As Chair, Jan provides leadership of the Board, promoting a culture of openness and debate.

He is Chief Executive Officer of Lotus Bakeries which is listed on Euronext Brussels and brings significant experience of M&A, strategic development and change management.

Jan started his career at PricewaterhouseCoopers and holds a master's degree in Applied Economics from KU Leuven and a master's degree in Audit from the University of Mons-Hainaut in Belgium. Between 2000 and 2005, Jan served as Head of Corporate Controlling and Member of the Executive Committee of Omega Pharma NV. Jan was appointed Managing Director of Lotus Bakeries in 2005 and Chief Executive Officer in 2011.

Key external appointments:
Jan is Chief Executive Officer of Lotus Bakeries Corporate NV. He also serves as Vice-President of Club Brugge KV.

Chief Executive Officer

Appointment:
Jennifer was appointed as Chief Executive Officer of the Group in 2018.

Committee membership:
N/A; attends some Committee meetings by invitation.

Responsibilities, relevant skills and experience:
As CEO, Jennifer has responsibility for developing and executing the Group's strategy as approved by the Board and drives the performance and results of the Group. She manages Group operations in conjunction with the Leadership Team. With her background in the healthcare sector, including senior commercial roles at AstraZeneca and GlaxoSmithKline, Jennifer brings significant experience of product development, change management, marketing and communications.

She was a Non-Executive Director of Allied Irish Bank from 2004 to 2010, and Chief Executive Officer of Barretstown from 2003 to 2007, transforming it into a successful, leading children's charity.

Jennifer has a BSc in Physiology and Pharmacology from the University of Southampton.

Key external appointments:
Jennifer was appointed as Non-Executive Director of EKF Diagnostics Holdings plc on 1 February 2022 and as a Trustee Director and Chair of the Trustees of Royal Brompton and Harefield Hospitals Charity in April 2022.

CHRIS BREWSTER

Chief Financial Officer and Company Secretary

Appointment:
Chris was appointed Chief Financial Officer in 2012.

Committee membership:
N/A; attends the Audit and Risk Committee by invitation.

Responsibilities, relevant skills and experience:
Since joining Animalcare in 2012, Chris has gained significant animal health sector experience and works alongside Jennifer in developing and executing the Group strategy. His responsibilities cover finance, risk management, Group IT and legal. Chris is the Board member responsible for Sustainability.

Chris is a Chartered Accountant, having qualified with KPMG in 2003. Before joining Animalcare he worked as Group Accounting Manager at Findus.

Key external appointments:
None

MARC COUCKE

Non-Executive Director

Appointment:
Marc was appointed as a Non-Executive Director in 2017.

Committee membership:
N/A

Responsibilities, relevant skills and experience:
As a Non-Executive Director, Marc brings significant experience of maximising value creation and developing strategy. Marc founded Omega Pharma NV in 1987, developing the company into a leading pan-European OTC health and personal care business and serving as both Chairman and Chief Executive Officer. Following the sale of Omega Pharma in 2015, he invested, via his private investment firm Alychlo NV, in several listed and non-listed companies.

Key external appointments:
Marc currently serves as Non-Executive Director of Smartphoto Group NV, a Belgian company, in addition to a number of private companies.

COMMITTEE MEMBERSHIP

- Audit and Risk Committee
- Remuneration and Nomination Committee
- By invitation
- Chair of committee

Board of Directors CONTINUED

DR DOUG HUTCHENS

Independent Non-Executive Director

Appointment:
Doug was appointed to the Board on 10 February 2022.

Committee membership:
Doug became a Member of the Remuneration and Nomination Committee and the Audit and Risk Committee following the Company's AGM on 7 June 2022.

Responsibilities, relevant skills and experience:
Doug has held several senior positions in research and development (R&D) and regulatory affairs at leading global animal health companies. As part of the executive team at Bayer Animal Health, he was an Executive Vice President and Chief Veterinary Officer where he led both drug discovery and product development on a global basis.

Before joining the animal health pharmaceutical industry, Doug was an Assistant Professor at the University of Illinois College of Veterinary Medicine where he conducted studies for most of the major animal health companies and participated in the development of multiple new products for companion and production animals. Early in his career, he was a practising veterinarian. He holds a Doctor of Veterinary Medicine degree and a PhD in pathobiology with an emphasis in immuno-parasitology from the University of Illinois.

Key external appointments:
Doug is Chief Scientific Officer at Animol Discovery, Inc in the US and on the advisory board of ClinGlobal Limited, which is based in Mauritius.

SYLVIA METAYER

Independent Non-Executive Director

Appointment:
Sylvia was appointed to the Board on 3 May 2022.

Committee membership:
Sylvia became Chair of the Audit and Risk Committee following the Company's AGM on 7 June 2022.

Responsibilities, relevant skills and experience:
After beginning her career as an auditor, Sylvia has gone on to build a highly successful career, initially holding key financial roles in leading international organisations and then in customer-focused commercial senior leadership roles, most recently at Sodexo. She joined Sodexo in 2006 as Group Financial Controller and was appointed CFO for Europe in 2008, President International Large Accounts in 2010, and CEO of Sodexo's Corporate Services Worldwide segment, the largest business in Sodexo in 2014. Before joining Sodexo, Sylvia was COO at Houghton Mifflin, a Boston-based educational publisher. Sylvia gained a business degree from the French École des Hautes Études Commerciales (HEC) and is a graduate of both Queen's University, Canada and of the University of Ottawa, Canada.

Key external appointments:
Sylvia is an independent Non-Executive Director for PageGroup plc, and an independent Non-Executive of Groupe ADP (Aéroports de Paris SA), chairing their Nomination and Remuneration Committees. She is also a member of the Supervisory Board of Keolis, SAS and Chair of the Audit and Compliance Committee.

ED TORR

Senior Independent Director

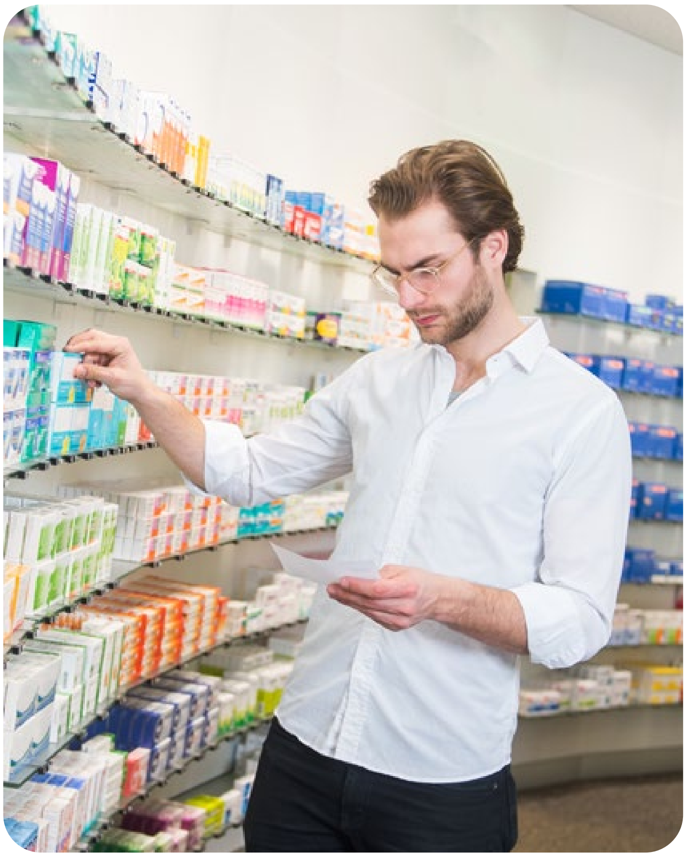
Appointment:
Ed was appointed to the Board in 2017.

Committee membership:
Chair of the Remuneration and Nomination Committee and member of the Audit and Risk Committee.

Responsibilities, relevant skills and experience:
As Senior Independent Director, Ed brings significant experience of business development and product development in the animal health sector.

He was part of the management buyout team that set up Dechra Veterinary Products in 1997 and an Executive Director on the board of Dechra Pharmaceuticals plc from 2000 until 2013, responsible for business development and managing the European business unit and instrumental in setting up the US business. Since 2014, Ed has independently advised various companies on sales and marketing structures, M&A opportunities, "in" and "out" licensing of products and investment opportunities within the veterinary and animal health sector.

Key external appointments:
Ed is a Non-Executive Director of Intervacc AB, a Swedish biotechnology company listed on Nasdaq Stockholm.



COMMITTEE MEMBERSHIP

- Audit and Risk Committee
- Remuneration and Nomination Committee
- By invitation
- Chair of committee

Corporate Governance Statement

> The Board provides effective leadership in promoting the sustainable long-term success of the Group

Dear shareholder,

I am pleased to present the Corporate Governance Report for 2022. Our corporate governance arrangements continued to evolve with a number of changes to the Board during the year. Dr Doug Hutchens and Sylvia Metayer were appointed, bringing additional independent perspective to Board discussions and enabling us to refresh the composition of the Board's committees. In May 2022, we announced the resignation of Nick Downshire, who decided not to seek re-election to the Board at the Company's Annual General Meeting.

The principles of corporate governance

Compliance with the QCA Corporate Governance Code (the "QCA Code")

The Board followed all 10 principles of the QCA Code during the year under review. We recognise the need for our governance practices and disclosures to continue to evolve in order to ensure that they support the growth and strategic progress of the Group and the effective application of these principles. Our approach to governance provides a framework of clearly established roles, policies and procedures designed to support our compliance with the QCA Code, the AIM Rules and other legal, regulatory and compliance requirements which apply to the Group. The Board regularly reviews our approach to governance to ensure that it develops in line with the Group's strategic plans. Further details of our corporate governance framework and activities are set out in our Corporate Governance Report.

Supporting strategy through effective governance

The Board has collective responsibility for setting the Group's strategic aims and objectives. Our strategy is articulated in the Strategic Report section of this report and on our website, along with our business model. The Board considers the expectations of the Company's shareholder base and its wider stakeholder and corporate social responsibilities when making decisions in furtherance of the Group's strategic aims.

The Board also has oversight of the Group's internal control and risk management systems. Alongside evaluating commercial opportunities, the Board regularly considers and reviews the business' principal and emerging risks and ensures that effective and appropriate mitigation strategies are in place. During the year, we have continued to develop the Group's risk management framework and details of our framework are set out in our Principal Risks section.

Stakeholder engagement and corporate culture

The Board places great importance on effective engagement with key stakeholders and aims to understand the views and interests of stakeholders so that these can be appropriately considered as part of its decision-making. The Strategic Report includes a description of how this engagement has worked in practice during the year under review and a statement about how the Directors have discharged their duty under s172 of the Companies Act 2006.

The Company's open and inclusive culture is reflected in the way that the Board conducts itself. While we continued to make use of video-conferencing facilities when appropriate, we ensured that some Board meetings were held in person at the Company's offices in Belgium. We value the opportunity this presents for the Board to interact with employees, thereby helping to promote the desired corporate culture. The Board recognises the importance of promoting an ethical culture by leading from the top. The Group's Code of Conduct, which is applicable to the Board and all employees, is our guide to doing business in the right way. It is complemented by more detailed rules and guidelines which are included in policies that cover the following areas: Good Business Practice, Respecting People, Safeguarding Information and Use of Information Technology. The Board also recognises the need to maintain a proactive focus on culture as the Group continues to grow. A more detailed explanation of the Board's monitoring of culture is given in the Corporate Governance Report.

Board appointments and succession planning

We welcomed two new Independent Non-Executive Directors to the Board in 2022. As previously reported, Dr Doug Hutchens was appointed in February 2022 and Sylvia Metayer was appointed in May 2022. In both cases, the appointments were the result of a formal selection process which gave due consideration to the need for diversity and took into account the balance of skills, experience and expertise on the Board. As previously announced, Nick Downshire stood down from the Board at the 2022 Annual General Meeting and we extend our thanks to him for his many years of commitment to the Company.

As Chair, I consider the operation of the Board as a whole and the performance of the Directors individually. The appointments referred to above, were actions agreed by the Board following its most recent formal evaluation process, conducted in March 2021. During the year, the Board continued to monitor progress against all agreed actions.

Build trust

The Board recognises the importance of disseminating clear and understandable information about the Group and its activities and maintaining regular dialogue with our stakeholders to ensure their views are understood and considered. The Board receives information on the Group's employee engagement programme, including details of the results of the annual employee engagement survey, and regular feedback from the Executive Team on their discussions with shareholders, potential investors, suppliers, partners and customers.

We will continue to monitor our application of the QCA Code and ensure that our governance framework continues to evolve in line with the strategic development of the Group and to understand the expectations of our stakeholders.

Board capabilities

The Board comprises seven experienced Directors who collectively have considerable expertise in the following areas:

- Strong industry experience and knowledge of the animal health and pharmaceuticals sector
- Leading organisational change and integration
- Managing a global supply chain
- Research and development
- Business planning and development
- Corporate finance and mergers and acquisitions
- Financial
- Risk management
- Governance

Board evaluation

Following the internal Board evaluation process conducted in 2021 which identified a number of actions to further strengthen the Board and its Committees, progress against the agreed actions was monitored during 2022. We are in the process of carrying out another internal Board evaluation, the outcome of which will be discussed by the Board and actions taken during the year. Further details can be found in the Corporate Governance Report.

JAN BOONE
Non-Executive Chair
15 May 2023

Corporate Governance Report

Composition of the Board and its Committees

Board composition

The Company maintains a robust framework of corporate governance, with clearly defined roles and responsibilities for the Board and its formally constituted Committees, as detailed below. This ensures the safeguarding of long-term shareholder value as well as the provision of a robust platform upon which to deliver the Group's strategy.

Board

Board of Directors Responsible for establishing the Company's strategic direction and overseeing a robust framework of governance.	Jan Boone	Independent Non-Executive Chair
Executive Directors Responsible for day-to-day management of the Company's operations and delivery of Group strategy.	Jennifer Winter	Chief Executive Officer
	Chris Brewster	Chief Financial Officer and Company Secretary
Non-Executive Directors Providing independent challenge to, and oversight of, the performance of the Executive Directors.	Marc Coucke	Non-Independent Non-Executive Director
	Ed Torr	Senior Independent Director
	Doug Hutchens	Independent Non-Executive Director
	Sylvia Metayer	Independent Non-Executive Director

Board Committees

Audit and Risk Committee

Responsible for monitoring the integrity of the Company's financial statements and overseeing the effectiveness of the Company's systems of risk management and internal control. The Audit and Risk Committee Report is within the Our Governance section of the Annual Report.

Remuneration and Nomination Committee

Responsible for the structure, size, composition and succession planning of the Board, as well as setting fixed and variable Executive Director remuneration and monitoring senior management remuneration levels. The Remuneration and Nomination Committee Report is within the Our Governance section of the Annual Report.

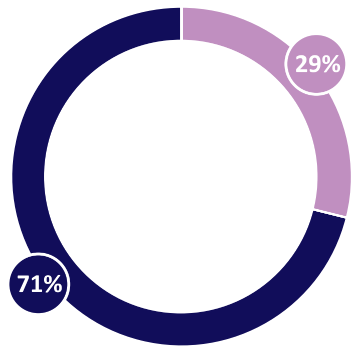
The Board's composition is designed to ensure that no one individual can dominate decision-making processes.

The Board currently comprises two Executive Directors and five Non-Executive Directors. Directors' biographies can be found in the Board of Directors section of the Annual Report.

Collectively, the Non-Executive Directors have an appropriate balance of skills and experience such that they are able to provide constructive support and challenge to the Executive Directors. The Directors believe that the Board as a whole possesses the necessary combination of skills, experience, capabilities and personal qualities to deliver the Group's strategy for the benefit of the Company's shareholders and wider stakeholders over the medium to long term.

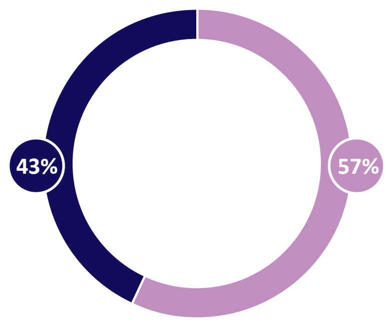
A breakdown by gender of the Board and the Senior Executive Team is provided below.

BOARD GENDER DIVERSITY



● Female ● Male

SENIOR EXECUTIVE TEAM



● Female ● Male

The Board recognises the benefits of diversity, including gender balance, and is committed to creating an inclusive culture, free from discrimination of any kind, and this extends to Board appointments.

The Board keeps under review the mix of experience and skills that are needed on the Board as the Group continues to grow so that Board composition can be adjusted if necessary over time. The Remuneration and Nomination Committee is responsible for succession planning for Board Directors and other Senior Executives. Members of the Senior Executive Team and wider management team are invited to present at Board meetings throughout the year.

The Non-Executive Directors attend external events and seminars to receive updates on matters such as financial reporting requirements and corporate governance. The Company Secretary also provides updates to the Board about developments in corporate governance practice and forthcoming changes to legislation or regulation which may impact on the Company.

Independence

The Non-Executive Chair, Jan Boone, Senior Independent Director, Ed Torr and Non-Executive Directors Dr Doug Hutchens and Sylvia Metayer, are all considered to be independent. The Board is therefore compliant with the QCA Code, having four independent Non-Executive Directors.

24.2% of the issued share capital is held by Alychlo NV, an entity wholly owned by Marc Coucke, non-independent Non-Executive Director.

Appointments to the Board and re-election

The Board has delegated to the combined Remuneration and Nomination Committee the tasks of reviewing Board composition, searching for appropriate candidates and making recommendations to the Board on candidates to be appointed as Directors.

As reported elsewhere, there were three changes to the Board in 2022: the appointments of Dr Doug Hutchens and Sylvia Metayer in February and May 2022 respectively, and Nick Downshire standing down from the Board at the 2022 Annual General Meeting. Further details on the role of the Remuneration and Nomination Committee and its activities during the year are set out in its report within the Our Governance section of the Annual Report.

The Directors have the power to appoint Directors during the year but any person so appointed must stand for election at the next Annual General Meeting ("AGM"), as required by the Company's Articles of Association ("Articles").

In accordance with corporate governance best practice, all Directors retire and offer themselves for election or re-election at the AGM each year. The Board considers that each of the Directors continues to make a valuable contribution to the Board and to demonstrate commitment to the Group.

How the Board operates

The Board is responsible for the Group's strategy and overall management. The operation of the Board is documented in a formal schedule of matters reserved for its approval, which sets out the Board's responsibilities and covers a number of areas including:

- The Group's strategic aims and objectives
- The structure and capital of the Group, and dividend policy
- Financial reporting and internal controls
- Risk and the Group's risk management
- The approval of significant contracts and expenditure
- Effective communication with shareholders
- Board structure, size and composition

The schedule of matters reserved for Board approval is available on the Company's website (www.animalcaregroup.com).

Board meetings

The Board met formally four times during the year. Non-Executive Directors maintain a direct and regular line of communication with Executive Directors and senior management between formal Board meetings.

Directors are expected to attend all meetings of the Board and the Committees on which they sit, and to devote sufficient time to the Group's affairs to enable them to fulfil their duties as Directors. This requirement is made clear in their letters of appointment. In the event that Directors are unable to attend a meeting, their comments on papers to be considered at the meeting will be discussed in advance with the Chair so that their contribution can be included in the wider Board discussion. The Board is satisfied that each of the Non-Executive Directors devotes sufficient time to the business, in accordance with the time commitment requirements set out in their Letters of Appointment.

Directors are encouraged to question and voice any concerns they may have on any topic put to the Board for debate.

The Board is supported in its work by Board Committees, which are responsible for a variety of tasks delegated by the Board. There is also a Senior Executive Team composed of the CEO, the CFO and representatives from senior management whose responsibilities are to implement the decisions of the Board and review the key business objectives and status of projects.

The table below shows Directors' attendance at formal scheduled Board and Committee meetings during the year:

Director	Board	Audit and Risk Committee	Remuneration and Nomination Committee
Jan Boone[1]	4/4	1/1	2/2
Chris Brewster[2]	4/4	–	–
Marc Coucke[3]	4/4	–	1/1
Nick Downshire[4]	2/2	1/1	–
Doug Hutchens	4/4	3/3	1/1
Sylvia Metayer[5]	3/3	2/2	–
Ed Torr	4/4	3/3	2/2
Jennifer Winter	4/4	–	–

1 Jan Boone stood down from the Audit and Risk Committee on 7 June 2022.

2 Chris Brewster attends the Audit and Risk Committee by invitation.

3 Marc Coucke stood down from the Remuneration and Nomination Committee on 7 June 2022.

4 Nick Downshire ceased to be Chair of the Audit and Risk Committee when he stood down from the Board on 7 June 2022.

5 Sylvia Metayer joined the Board on 3 May 2022 and became Chair of the Audit and Risk Committee on 7 June 2022.

Board decisions and activity during the year

The Board has an agreed schedule of activity for the financial year covering regular business updates and operational, financial and governance issues. Each Board Committee also has an agreed schedule of activity. This ensures that all areas for which the Board has overall responsibility are addressed during the year. These schedules of activity are reviewed at least once a year to ensure that matters are considered at an appropriate time.

Board and Committee agendas and papers are circulated to the Board in good time in advance of the meetings and each meeting is minuted.

The Board agenda includes a Business Review covering progress against strategy, financial performance, key business initiatives, leadership activities and new product development. Investor relations updates, financial reports and consideration of reports from the Board Committees are also covered on the Board agenda. In addition, key areas put to the Board for consideration and review during the year included:

Strategy	New product development and M&A opportunities
	Board strategy discussions
Performance	Trading updates
	Review of budgets and forecasts
	Going concern and cash flow
	Presentations from members of the Senior Executive Team
	Approval of 2021 Annual Report, final dividend recommendation, 2022 Interim Results and interim dividend
Governance	Review of progress on actions identified as part of the internal Board performance evaluation
	Review of Board composition and search for and appointment of Non-Executive Directors
	Review of conflicts of interest
Stakeholders	Investor relations and share register analysis
	Review of AGM business

Details of the Board's key discussions and stakeholder considerations are set out in the Strategic Report.

Board Committees

The Board has delegated specific responsibilities to its two Board Committees, the Audit and Risk Committee and the Remuneration and Nomination Committee, which are each comprised of at least two independent Non-Executive Directors, in accordance with the QCA Code.

Each Board Committee has written Terms of Reference setting out their duties, authority and reporting responsibilities. These Terms of Reference were reviewed and approved by the Board during the year and are available on the Company's website (www.animalcaregroup.com).

Details of the operation of the Board Committees are set out in their respective reports below. Each of the Board Committees is authorised to obtain, at the Company's expense, professional advice on any matter within their Terms of Reference and to have access to sufficient resources in order to carry out their duties.

Senior Executive Team

The Senior Executive Team (SET) comprises the CEO, CFO, North and South Region Directors, Group HR Director, Group Commercial Director and, from February 2022, the newly created role of Strategic Product and Portfolio Director. The team meets weekly, monthly and quarterly and its responsibilities include tracking financial performance, progress against our strategic and operational objectives, leadership development, improving employee engagement and all aspects of the operational leadership of the organisation.

External advisers

The Board seeks advice on various matters from Stifel Nicolaus Europe Ltd, its nominated adviser, corporate finance adviser and joint broker (with Panmure Gordon & Co). Advice is also provided by the Company's lawyers, Squire Patton Boggs (UK) LLP, and by its corporate governance and company secretarial adviser, Prism Cosec, which also provides company secretarial support.

Development, information and support

The Company Secretary ensures that all Directors are kept abreast of changes in relevant legislation and regulations, with the assistance of the Company's external advisers where appropriate. Executive Directors are subject to the Company's performance development review process through which their performance against predetermined objectives is reviewed and their personal and professional development needs considered. Non-Executive Directors are encouraged to raise any personal development or training needs with the Chair or Company Secretary.

Risk management

The Board has ultimate responsibility for setting the Group's risk appetite and risk management strategy and for reviewing the effectiveness of the Group's framework for risk management and internal control. Oversight of risk management is undertaken by the Audit and Risk Committee which reports to the Board three times a year. Following the implementation of an improved risk management structure during 2021, the Audit and Risk Committee continued to review the adequacy and effectiveness of the risk management structure during the year, with a continued focus on risk reporting. Further details regarding the implementation are set out in the Audit and Risk Committee Report and in Our Principal Risks in the Strategic Report.

Internal controls

The Board has ultimate responsibility for the Group's system of internal controls and for the ongoing review of their effectiveness.

Systems of internal control can only identify and manage risks and not eliminate them entirely. As a result, such controls cannot provide an absolute assurance against misstatement or loss. The Board considers that the internal controls that have been established and implemented are appropriate for the size, complexity and risk profile of the Group.

The main elements of the Group's internal control system include:

- Close management of the day-to-day activities and financial performance of the Group by the Senior Executive Team and other senior management
- An organisational and IT systems structure with defined levels of responsibility and user access
- Specified contract approval levels and financial authority limits
- An annual budgeting process which is approved by the Board
- A quarterly reforecasting process which forms part of the financial performance review cycle
- Controls to ensure that the assets of the Group are safeguarded and that appropriate accounting records are maintained

The Board continues to review the system of internal controls to ensure it is fit for purpose and appropriate for the size and nature of the Company's operations and resources. The internal control procedures were in place throughout the financial year and up to the date of approval of this report.

Board evaluation

As reported in the 2021 Annual Report, the Board conducted a formal internal performance evaluation process in 2021. The output was discussed by the Board and a number of actions were agreed in late 2021 and early 2022 including:

- Strengthening Board composition with the appointment of two new independent Non-Executive Directors to improve independence, gender diversity and international and new product development experience on the Board
- Reinstating Board visits to European offices in the annual Board calendar
- Further interaction between the Non-Executive Directors and members of the Senior Executive Team
- Enhancements to the Board's oversight of the Group's risk management framework

Preliminary progress against these actions was reported in the 2021 Annual Report and the Board continued to monitor progress in 2022. In addition to the appointment of Dr Doug Hutchens as an independent Non-Executive Director in February 2022, Board composition was further strengthened by the appointment of Sylvia Metayer as an independent Non-Executive Director in May 2022. The Board met at the Company's offices in Belgium in September and intends to meet at other offices when appropriate; this facilitates further interaction between the Non-Executive Directors and the members of the Senior Management Team. Enhancements to the Board's oversight of the Group's risk management framework is addressed in the Audit and Risk Committee Report.

The Chair has recently held individual meetings with each member of the Board to discuss how the Board operates and the output from these meetings will be discussed by the Board, with actions agreed and monitored during 2023.

Succession planning

The Remuneration and Nomination Committee considers succession planning in its work and formulates plans for the succession of all Directors. Further details can be found in the Committee's report.

Conflicts of interest

The Company has procedures in place for managing conflicts of interest. These include a requirement for Directors to declare any interests in the matters to be discussed at each Board or Committee meeting. Directors also have a continuing duty to notify the Company of any changes to their potential or actual conflicts and are regularly reminded of this. The Company's Articles provide for the Board to authorise any actual or potential conflicts of interest if deemed appropriate to do so.

Independent professional advice

Directors have access to independent professional advice at the Company's expense. In addition, they have access to the advice and services of the Company Secretary who is responsible for advice on corporate governance matters to the Board and can receive guidance from the Group's corporate governance and company secretarial adviser, Prism Cosec.

Directors' and officers' liability insurance

The Company has Directors' and officers' liability insurance in place, as permitted by the Company's Articles.

Culture

The Board sets clear expectations concerning the Group's culture and values.

We believe that by encouraging the right way of thinking and behaving across the Group, we will reinforce our corporate governance culture, enabling us to conduct business ethically and responsibly, drive our growth and customer-focused, people-led strategy and deliver value for our shareholders.

The Board understands how important it is for it to lead by example. The Group's Code of Conduct, which applies to the Board and all employees, is our guide to doing business in the right way. It is supplemented by detailed policies covering the following areas: Good Business Practice, Respecting People, Safeguarding Information and Use of Information Technology.

When possible, Board meetings take place at the offices of different business units, which gives the Board the opportunity to engage with members of the management team and the wider employee base formally and informally, at meetings, lunches and dinners. Such interactions provide an invaluable opportunity to engage with, and ascertain the views and interests of, a key stakeholder, the workforce. It also allows a valuable insight into our corporate culture and assists the Board in monitoring and promoting a healthy culture throughout the business by setting a positive tone from the top.

The Board also received a report on the results of the annual employee engagement survey and the actions planned to address any issues raised and the focus for the following year. It also covered key people initiatives being undertaken during the year which included the talent management process, learning and development initiatives and the leadership development programme.

Due to the Company's relatively small employee base, the Non-Executive Directors are able to engage directly with employees in their special areas of interest.

We recognise the need to maintain a proactive focus on culture as the Group grows and it will remain a focus during the coming year.

Relations with shareholders

The Group maintains communication with institutional shareholders through individual meetings with Executive Directors, generally following publication of the Group's interim and full year results. We encourage our shareholders to attend our AGM and we give them the opportunity to pose questions to our Directors. Information about the Group is available on the Group's website (www.animalcaregroup.com), including an overview of the Group's activities and details of all recent Group announcements. The Non-Executive Directors are available to discuss any matter stakeholders might wish to raise, and the Chair and independent Non-Executive Directors will attend meetings with investors and analysts as required.

A review of the share register is circulated to the Board on a quarterly basis and key changes are discussed by the Board.

Employee engagement

As in previous years, we conducted a Company-wide employee survey using the Gallup Q12 methodology. Measured against Gallup's European benchmark of companies, the Group again performed well despite a decline of 2% in overall engagement. The survey highlighted a particularly positive view among employees about their ability to deliver high quality work as well as opportunities to further develop and progress in their roles.

A major theme in 2022 was further development of our people to lead and drive future business success. The introduction of a Group-wide talent management process, supported by a common competency framework, will help identify and develop high potential employees as candidates for leadership positions. In addition, we are reinforcing relevant leadership behaviours through the launch of a branded Animalcare "High Challenge High Support" development programme.

Our surveys have identified internal communication as an area for improvement. In response, we launched a communication working group to engage and inform our teams more efficiently and effectively through the use of digital tools, including the development of a new intranet.

To facilitate recruitment and on-boarding, we have created a global policy to support line managers as they help future talent absorb Animalcare's core culture, values, behaviours and expectations.

Guided by the findings from our annual employee survey, we are accelerating our journey to become "A Great Place to Work". This includes a further focus on employee wellbeing underpinned by our external employee assistance provider programme.

With business success the guiding objective, our main focus for 2023 will be the roll-out of our talent review process and competency framework to our sales and marketing organisation, the launch of a learning and development strategy and the further implementation of our leadership development programme.

AGM

The Company's AGM is scheduled for Tuesday 13 June 2023. Further details of the AGM arrangements can be found in the Notice of 2023 AGM, which is available on the Company's website www.animalcaregroup.com/investors/shareholder-centre/agm/

Audit and Risk Committee Report

SYLVIA METAYER
Chair of the Audit and Risk Committee

"As the new Chair, I am pleased to present my first Audit and Risk Committee report

I am pleased to present the Audit and Risk Committee's report for the year ended 31 December 2022. I would like to extend the Committee's thanks to Nick Downshire who chaired the Committee until he stood down from the Board in June 2022.

The Audit and Risk Committee is responsible for ensuring that the financial performance of the Group is properly monitored and reported on. Its role includes monitoring the integrity of the Group's financial statements, reviewing significant financial reporting issues, monitoring the effectiveness of the Company's internal controls, and the appropriateness and effectiveness of the risk management framework and risk management systems, and overseeing the relationship with the external auditors. It is also responsible for establishing, monitoring and reviewing procedures and controls for ensuring compliance with the AIM Rules.

Members of the Audit and Risk Committee during the year

During the year, the Committee comprised the following independent Non-Executive Directors:

- Nick Downshire (Chair) (stood down on 7 June 2022)
- Jan Boone (stood down on 7 June 2022)
- Sylvia Metayer (Chair) (appointed to the Committee on 7 June 2022)
- Doug Hutchens (appointed to the Committee on 7 June 2022)
- Ed Torr

The Committee comprises three independent Non-Executive Directors.

Sylvia Metayer became Chair of the Audit and Risk Committee on 7 June 2022 following the Company's Annual General Meeting, at which the former Committee Chair, Nick Downshire, stood down as a Director after many years of commitment to the Group. On the same date, we welcomed Doug Hutchens to the Committee and Jan Boone, our Chair, ceased to be a member. The relevant skills and experience of the Committee members are set out in their biographies within the Board of Directors section. The Board is satisfied that Sylvia Metayer has recent and relevant financial experience. Sylvia began her career as an auditor and since then has held a variety of key financial and commercial positions in leading international groups. She is also a highly experienced Non-Executive Director.

Only Committee members have the right to attend meetings. Other individuals, such as the Chief Financial Officer, other members of the finance team and members of other internal teams are invited to attend meetings, for all or part of the meeting as appropriate. Representatives from the external auditors attend at least two Committee meetings during the year to present their audit and their audit plan for the following year. Other advisers may be invited to attend meetings on occasion.

Key responsibilities

The role and responsibilities of the Committee are set out in its Terms of Reference which are reviewed annually, taking into account relevant regulatory changes and recommended best practice. The current Terms of Reference were approved by the Board on 12 December 2022 and are available on the Company's website (www.animalcaregroup.com).

The main duties of the Committee include:

- Maintaining and monitoring the quality and integrity of the Group's financial statements, including its annual and half-yearly reports, and other formal announcements relating to financial performance, and reviewing significant financial reporting issues and judgements
- Reviewing the adequacy and effectiveness of the Company's internal controls and risk management
- Overseeing the relationship with the external auditors, reviewing performance and advising the Board members on the auditor's appointment and remuneration; and
- Reporting formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities

The Committee challenges both the external auditors and the management of the Group and reports the findings and recommendations of the external auditors to the Board. The Committee meets to review the proposed audit work, review the results of the audit work and consider any recommendations arising from the audit.

Activities undertaken by the Committee during the year

The duties contained in the Terms of Reference form the basis for the Committee's focus and scope of work across each financial year and the Committee meets at appropriate times in the reporting and audit cycle and at such other times as is necessary to discharge its duties. The Committee met three times during the year and on one occasion since the year end. Committee meetings are arranged to coincide with key dates in the financial reporting calendar and audit cycle. Committee members' attendance at the meetings held during the year is set out in the Corporate Governance Report; every Committee member attended all scheduled Committee meetings during 2022.

The main activities of the Committee during the year are set out below.

Annual and interim financial statements

The Committee reviewed the full year and interim financial statements including consideration of significant audit risks identified by the external auditors, and the key accounting judgements and estimates. The Committee's response to the significant accounting judgements and estimates in respect of the 2022 financial statements is set out below. The Committee also reviewed the principal risks' disclosures.

Risk Management Framework

In 2022, the Committee's focus moved on from overseeing implementation of the Group's new Risk Management Framework (RMF) during 2021 to monitoring how the system was operating in practice as processes became more internally embedded. This entailed receiving and reviewing the internal risk management reports and considering the appropriateness of the Group's RMF, taking into account the Group's strategic plans. The Committee is satisfied that the Group's RMF enables the Board to monitor, manage and mitigate the key risks in the Group's strategic plan for the benefit of stakeholders.

Review of provisions and contingent liabilities

The Committee receives a report on current potential contingent liabilities at each scheduled Committee meeting and considers the appropriateness of the disclosures and provisions in the financial statements.

Going concern and liquidity

The Committee is responsible for reviewing statements and disclosures made in respect of Going Concern, as outlined in the Chief Financial Officer's review and the Note to the Consolidated Financial Statements which provides a Summary of Significant Accounting Policies. In considering such disclosures, the Committee paid particular attention to the robustness of stress testing scenarios, the cash flows forecast by the Group, bank covenant compliance and the committed bank facilities available in the period under review and beyond. The external auditors reviewed management's assessment and discussed this review with the Committee.

Role of the external auditors

The Committee oversees the relationship with the external auditors, PricewaterhouseCoopers LLP (PwC), to ensure that the auditors' independence, objectivity and effectiveness are maintained.

The Committee takes into account a number of areas when reviewing the external auditors' appointment, including the auditors' performance in discharging the audit, the scope of the audit, the terms of engagement, and its independence and objectiveness.

PwC were first appointed as the Group's external auditors in 2018 as the result of a competitive tender process. In accordance with audit regulation, PwC operates a policy of rotating the Audit Partner every five years and following completion of the 2021 audit, Ian Morrison was rotated off and replaced by Kate Finn as the Group's Audit Partner.

As part of its review, the Committee also considers the fees payable to PwC and monitors the provision of non-audit services. On occasion there may be advantages in using the external auditors to provide non-audit services given their knowledge of the business. A business case would need to be made to use the auditors rather than another provider and Committee sign-off would be required to ensure there is no impact on the auditors' objectivity and independence. The breakdown of fees between audit and non-audit services is provided in the Notes to the Consolidated Financial Statements.

The Committee also reviews the external auditors' management letter and detailed presentations are made to the Committee by the auditors at least twice a year. There is an active ongoing discussion between the Committee and the auditors on any recommendations to improve the efficiency of the audit process.

Having reviewed and assessed the auditors' independence and performance, the Committee recommended to the Board that a resolution to reappoint PwC as the Group's external auditors be proposed at the forthcoming Annual General Meeting.

As a company listed on AIM, the Company is not required to re-tender its audit every 10 years. The Committee will make a recommendation about timing of the next tender process when it feels the time is appropriate.

Audit process

The audit process commences each year when the Committee receives from the auditors a detailed audit plan, identifying their assessment of the key audit matters and their intended areas of focus. This plan is reviewed and agreed in advance by the Committee.

The Committee reviews the quality and effectiveness of the external audit process on an annual basis, considering the views of both the external audit team, and the CFO, as well as assessing the Committee's own interactions with the external auditors. As part of the review of the 2021 year-end audit, the Committee and the Group's Audit Partner discussed the process and agreed that, while effective, certain refinements would be made to improve the efficiency of the external audit process for the 2022 year end. It will review the 2022 year-end audit process during the course of 2023.

Internal audit

The Committee has undertaken its annual review of the need for an internal audit function and continues to be of the view that, given the size and nature of the Group's operations and finance team, there is no current requirement to establish a separate internal audit function.

Significant issues considered in relation to the financial statements

As part of the monitoring of the integrity of the financial statements, significant issues and accounting judgements identified by the finance team, and the external audit process, are reviewed by the Committee and reported to the Board. The key matters considered by the Committee in respect of the year ended 31 December 2022 are set out below:

Carrying value of goodwill and intangible assets (Group) and carrying value of investments (Company only)	Consideration of the carrying value of goodwill and intangible assets and the assumptions underlying the impairment review. The judgements in relation to the valuation primarily relate to the assumptions underlying the cash flows of the long-term business plans, including revenues from the R&D pipeline, the discount rate and the long-term growth rate. The assumptions are sensitised to demonstrate there is adequate headroom between the recoverable amount and the carrying value of the asset being tested for impairment.
Recognition and valuation of judgemental provisions	Determining the appropriateness of the assumptions used in the recognition and valuation of judgemental provisions which relate mainly to inventory, customer rebates and contingent liabilities.
Presentation of underlying profit adjustments	A review of the appropriateness of items disclosed as non-underlying items, including amortisation and impairment of acquired intangibles, acquisition and integration costs.

The Committee was satisfied that each of the matters set out above had been fully and adequately addressed by the Executive Directors, appropriately tested by the external auditors and that the disclosures made in this Annual Report and Accounts were appropriate.

Risk management, internal controls and key activities for 2023

The Committee is responsible for reviewing the risk management and internal control framework and ensuring that it operates effectively. As explained above, during 2021 the Group implemented its new and strengthened Risk Management Framework (RMF), which has been consistently applied during 2022. In the second half of the financial year, the Committee undertook a review of the RMF and is currently working alongside the Chief Financial Officer, with guidance from the external advisers who supported the initial implementation, to further develop and refine the RMF for adoption during 2023, with emphasis on R&D commensurate to our strategy to develop differentiated and innovative products for the future. Further details of the Group's system of internal controls can be found in Our Principal Risks. The Committee is satisfied that the risk management framework and internal control systems are operating effectively.

Activities in 2023

We will continue to refine and strengthen our internal control framework where required in response to changes in our risk profile and the business. Supply chain processes, including how these impact on cash conversion, will be a focus area for 2023.

Share dealing

The Group operates a share dealing code in conformity with the requirements of Rule 21 of the AIM Rules. All employees, including new joiners, are required to agree to comply with this code.

Whistleblowing

The Group has in place whistleblowing procedures under which staff may report any suspicion of fraud, financial irregularity or other malpractice.

SYLVIA METAYER
Chair of the Audit and Risk Committee

15 May 2023

Remuneration and Nomination Committee Report

"

The Committee considers Group strategy when recommending the appointment of Directors and setting and reviewing remuneration.

I am pleased to present our Remuneration and Nomination Committee Report which sets out details of the composition, structure and operation of the Committee, our work during the year, our remuneration policy and remuneration paid to Directors during the year.

Members of the Remuneration and Nomination Committee during the year

During the year, the Committee comprised the following Non-Executive Directors:

- Ed Torr (Chair)
- Jan Boone
- Marc Coucke (stood down from the Committee on 7 June 2022)
- Doug Hutchens (appointed to the Committee on 7 June 2022)

Marc Coucke was a member of the Committee until 7 June 2022 when he stood down as part of a review of Committee memberships following the appointment of Dr Doug Hutchens and Sylvia Metayer as independent Non-Executive Directors in February and May 2022 respectively. Doug Hutchens became a member of the Committee from 7 June 2022.

The Committee now comprises three independent Non-Executive Directors.

Key responsibilities

The Committee considers Group strategy when recommending the appointment of Directors and setting and reviewing remuneration. The Committee works closely with the Board to consider Board composition, to formulate remuneration policy and to consider succession plans and possible internal candidates for future Board roles, having regard to the views of shareholders and the recommendations of the QCA Corporate Governance Code and the AIM Rules for Companies.

The main duties of the Committee are set out in its Terms of Reference, which are available on the Company's website (www.animalcaregroup.com) and include the following responsibilities:

Nomination

- Reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and making recommendations to the Board with regard to any necessary changes;
- Considering succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Company; and
- Leading the process and making recommendations for all potential appointments to the Board.

Remuneration

- Setting remuneration for the Executive Directors, including pension allowance and awards under the Long-Term Incentive Plan (LTIP);
- Approving the design of, and determining targets for the annual performance-related bonus

- schemes and LTIP and approving the total payments or awards made under these schemes; and
- Recommending and monitoring the level and structure of remuneration for the Senior Executive Team.

The Committee reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

Terms of Reference are reviewed annually and the Board approved the current Terms of Reference on 12 December 2022.

Activities during the year

The duties contained in the Terms of Reference form the basis for the Committee's work plan across each financial year and the Committee meets at such times as is necessary to discharge its duties. The Committee met twice during the year and on one occasion since the year end. Committee members' attendance at the meetings held during the year is set out in the Corporate Governance Report.

Although only members of the Committee have the right to attend meetings, other individuals, such as the Chief Executive and external advisers, may be invited to attend for all or part of any meeting.

The Committee continued and completed the work it began during 2021, with the assistance of Ridgeway Partners, to select two new Non-Executive Directors. Following on from the appointment of Dr Doug Hutchens in February 2022, the Committee continued its search for a candidate with financial and audit experience. After a detailed selection process, which entailed drawing up a short list of candidates, interviews with Committee Members and due diligence checks, the Committee considered and approved a proposal to recommend to the Board the appointment of Sylvia Metayer. Sylvia was subsequently appointed as an independent Non-Executive Director with effect from 3 May 2022 and received a bespoke induction.

In March 2022, the Committee considered bonus entitlement for 2021 considering the financial performance in that year, the performance targets for the 2022 bonus scheme, grant of new LTIP awards in April 2022 and the vesting of the 2019 LTIP awards. Full details are set out in the Directors' Remuneration Report.

Later in the financial year, the Committee discussed the remuneration of the Directors and after due consideration, it was agreed that Executive Directors' salaries and Non-Executive Directors' fees would remain unchanged for 2023. The Committee reviewed performance targets for the Executive Directors' FY 2022 bonus and confirmed that these had not been achieved. The Committee also reviewed the LTIP and agreed that no material changes were required to its overall structure for 2023.

After considering the approach to the Board evaluation process for 2023, the Committee agreed that the Chair would hold individual meetings with each member of the Board to discuss how the Board operates and the output from these meetings would be discussed by the Board, with actions agreed and monitored during the year.

Induction and development

On appointment, an induction programme was agreed for Doug Hutchens and Sylvia Metayer including meetings with each of the Directors and members of the Senior Executive Team to develop their knowledge and understanding of Animalcare's operations.

In addition, the Company's nominated adviser and joint broker, Stifel Nicolaus Europe Ltd, provided briefings for the newly appointed Directors on their legal duties and responsibilities as directors of an AIM company.

We are confident that all Board members have the knowledge, ability and experience to perform the functions required of a director of an AIM listed company.

Diversity and inclusion

The Company's policy is that recruitment, promotion and any other selection exercises will be conducted on the basis of merit against objective criteria that avoid discrimination. No individual should be discriminated against on the grounds of race, colour, ethnicity, religious belief, political affiliation, gender, age or disability, and this extends to Board appointments.

The Board recognises the benefits of diversity, including gender diversity, both on the Board and Senior Executive Team. Appointments will be made on merit but with due consideration to the need for diversity and to ensure there is an appropriate balance of skills and experience. The Board currently consists of 71% (five) male and 29% (two) female members. The Senior Executive Team currently consists of 43% (three) male and 57% (four) female members.

ED TORR
Chair of the Remuneration and Nomination Committee

15 May 2023

Directors' Remuneration Report

The following disclosures are made in accordance with best practice governance standards as an AIM company and to provide transparency about how our Directors are rewarded.

This report covers the financial year ended 31 December 2022.

The Remuneration and Nomination Committee

The Board has delegated certain responsibilities for Executive remuneration to the Remuneration and Nomination Committee ("the Committee"). Details of the Committee, its remit and its activities are set out in the Remuneration and Nomination Committee Report.

The Committee is, among other things, responsible for setting the remuneration policy for Executive Directors and the Chair, and recommending and monitoring the level and structure of remuneration for senior management.

Remuneration policy

The objective of the remuneration policy is to promote the long-term success of the Company, having regard to the views of shareholders and other stakeholders.

In formulating remuneration policy for the Executive Directors, the Committee considers a number of factors designed to:

- Have regard to the Directors' experience and the nature and complexity of their work in order to pay a competitive salary, in line with comparable companies, that attracts and retains Directors of the highest quality;
- Reflect the Directors' personal performance; and
- Link individual remuneration packages to the Group's long-term performance and continued success through the award of annual bonuses and share-based incentive schemes.

Executive Directors

Current components of the Executive Directors' remuneration are base salary, annual bonus and share-based incentive schemes.

Base salary

Base salary is reviewed annually by the Committee.

As reported in the Remuneration and Nomination Committee Report, the Committee agreed that the Executive Directors' salaries for 2023 would remain at the same levels as 2022.

Annual bonus

The Committee has agreed performance conditions for the Executive Directors' annual bonus based on the achievement of certain financial and operational KPIs. Each Executive Director has performance conditions related to the profitable growth of the Group and additional performance conditions relevant to their own areas of responsibility.

For the CEO, 75% of the bonus award is aligned to achievement of Group financial performance targets (budgeted revenue (37.5 %) and EBITDA (37.5 %)) and 25% is dependent on achievement of personal objectives. The maximum bonus opportunity is 50% of salary.

For the CFO, 75% of the bonus award is aligned to achievement of Group financial performance targets (budgeted revenue (30%), EBITDA (30%) and cash conversion (15%)) and 25% is dependent on achievement of personal objectives. The maximum bonus opportunity is 40% of salary.

Malus and clawback provisions will apply to enable the Company to recover sums paid or withhold the payment of any sum in the event of a material misstatement resulting in an adjustment to the audited consolidated accounts of the Group or action or conduct which, in the reasonable opinion of the Board, amounts to employee misbehaviour, fraud or gross misconduct.

Long Term Incentive Plan

The Animalcare Group plc Long Term Incentive Plan 2017 ("the LTIP"), was approved by the Board in June 2017. A summary of the LTIP was set out in the circular sent to shareholders on 24 June 2017 which is available on the Company's website (www.animalcaregroup.com).

On 28 April 2022, the Board approved the grant of nil-cost options under the LTIP over a total of 302,037 ordinary shares with a nominal value of 20.0 pence per share ("the Options") which were awarded to the Company's Executive Directors and certain members of the Senior Executive Team and Leadership Team. Details of the nil-cost options granted to the Executive Directors are set out under Statutory Information – Share Options below. The LTIP awards will vest on 1 July 2025 subject to the following performance criteria being met over the three-year financial period ending 30 June 2025. The Options will vest to the extent the following performance conditions based on EPS and TSR are met:

Earnings Per Share growth	Extent to which EPS tranche will vest
Less than 3%	0%
3%	25%
10%	100%
Between 3% and 10%	Between 25% and 100% on a straight–line basis

Rank of the Company's TSR compared to the Comparator Group	Extent to which the TSR tranche will vest
Upper quartile or above	100%
Between median and upper quartile	Pro rata between 25% and 100% on a ranking basis
Median	25%
Below median	0%

50% of the option award will be subject to the EPS performance condition and the remaining 50% will be subject to the TSR performance condition. Accordingly, if one of the performance conditions is met but the other is not, the Option award will vest in part. The details of the LTIP are set out in Notes to the Consolidated Financial Statements.

Non-Executive Directors are not eligible to participate in the LTIP.

On 6 June 2022, 145,382 options granted on 6 June 2019 vested. Details of the awards vested are set out in Statutory Information – Share Options below.

Other benefits

A range of benefits may be provided including company car allowance, private medical insurance, life assurance, travel insurance, general employee benefits and travel and related expenses. The Committee also retains the discretion to offer additional benefits as appropriate, such as assistance with relocation, tax equalisation and overseas tax advisory fees.

Service agreements and termination payments

Details of the Executive Directors' service agreements are set out below.

Director	Date of contract	Unexpired term	Notice period by Company	Notice period by Director
Chris Brewster	24 January 2012	Rolling contract	6 months	6 months
Jennifer Winter	2 August 2018	Rolling contract	6 months	6 months

The Executive Directors may be put on gardening leave during their notice period, and the Company can elect to terminate their employment by making a payment in lieu of notice of up to the applicable notice period.

Letters of appointment

Details of the Non-Executive Directors' letters of appointment are set out below.

Director	Date of contract	Renewed on	Term expires	Notice period by Company	Notice period by Director
Jan Boone	17 June 2017	30 June 2020	2023 AGM	3 months	3 months
Marc Coucke	17 June 2017	30 June 2020	2023 AGM	3 months	3 months
Ed Torr	17 June 2022	30 June 2020	2023 AGM	3 months	3 months
Doug Hutchens	10 February 2022	–	2025 AGM	3 months	3 months
Sylvia Metayer	3 May 2022	–	2025 AGM	3 months	3 months

Employees’ pay

Employees’ pay and conditions across the Group are considered when reviewing remuneration policy for Executive Directors.

Non-Executive Directors

The remuneration payable to Non-Executive Directors (other than the Chair) is decided by the Chair and Executive Directors.

Fees are designed to ensure the Company attracts and retains high-calibre individuals. They are reviewed annually, taking account of the level of fees paid by companies of a similar size and complexity. Non-Executive Directors do not participate in any annual bonus, share options or pension arrangements. The Company repays the reasonable expenses that Non-Executive Directors incur in carrying out their duties as Directors. There were no changes to the fees payable to the Chair or Non-Executive Directors in the year.

Remuneration policy for 2023

Executive Directors’ salary and bonus structure and Non-Executive Directors’ fees remain at the same levels as 2022.

The remuneration policy for 2023 will operate as follows:

	Role	Basic salary/fee £’000	Maximum bonus potential
Executive			
Jennifer Winter	Chief Executive Officer	336	50%
Chris Brewster	Chief Financial Officer	230	40%
Non-Executive			
Jan Boone	Chair	70	–
Sylvia Metayer	Chair of Audit and Risk Committee	45	–
Ed Torr	Chair of Remuneration and Nomination Committee	45	–
Marc Coucke	Non-Executive Director	40	–
Doug Hutchens	Non-Executive Director	40	–

Statutory information

The following information includes disclosures required by the AIM Rules and UK company law in respect of Directors who served during the year to 31 December 2022.

Directors' remuneration

The following table summarises the gross aggregate remuneration of the Directors who served during the year to 31 December 2022:

£'000		Salary and fees	Annual bonus	Benefits	Pension	Total
Executive						
Jennifer Winter[1]	**2022**	**336**	**–**	**15**	**–**	**351**
	2021	306	153	14	–	473
Chris Brewster[2]	**2022**	**230**	**–**	**14**	**22**	**266**
	2021	209	84	12	23	328
Non-Executive						
Jan Boone	**2022**	**70**	**–**	**–**	**–**	**70**
	2021	70	–	–	–	70
Marc Coucke	**2022**	**40**	**–**	**–**	**–**	**40**
	2021	40	–	–	–	40
Nick Downshire[3]	**2022**	**17**	**–**	**–**	**–**	**17**
	2021	40	–	–	–	40
Doug Hutchens[4]	**2022**	**38**	**–**	**–**	**–**	**38**
	2021	–	–	–	–	–
Sylvia Metayer[5]	**2022**	**30**	**–**	**–**	**–**	**30**
	2021	–	–	–	–	–
Ed Torr[6]	**2022**	**45**	**–**	**–**	**–**	**45**
	2021	45	–	–	–	45
Total	**2022**	**806**	**–**	**29**	**22**	**857**
	2021	710	237	26	23	996

1 Jennifer Winter's benefits comprise a car allowance (£10,500) and private medical insurance (£4,400).

2 Chris Brewster's benefits comprise a car allowance pro-rated to 31 August (£7,000) which was replaced by a company car from 1 September, with a pro-rated lease cost of £4,600 from 1 September to 31 December, and private medical insurance (£2,400).

3 Nick Downshire ceased to be a Director on 7 June 2022. His annual fee of £40,000 was pro-rated to his date of resignation; the pro-rated fee for 2022 was £17,436.

4 Doug Hutchens was appointed as a Director on 10 February 2022 for an annual fee of £40,000. He was appointed to the two Board committees on 7 June 2022 and his annual fee was increased to £45,000. Annual fees were pro-rated from the dates of appointment; the total fee paid in 2022 was £38,096.

5 Sylvia Metayer was appointed as a Director with effect from 3 May 2022. Her annual fee of £40,000, and an additional annual fee of £5,000 for her role as Chair of the Audit & Risk Committee, were pro-rated from her date of appointment. The pro-rated fee for 2022 was £29,885.

6 Ed Torr receives an annual fee of £40,000 and an additional fee of £5,000 for his chairmanship of the Remuneration and Nomination Committee.

Share options

The individual interests of the Executive Directors under the LTIP are set out below:

	Date of grant	End of three-year performance period	Number of LTIP nil cost options awarded	Vested during the year	Lapsed during the year	Total remaining
Jennifer Winter	06/06/19	06/06/22	177,570	73,732	103,838	73,732
	17/11/20	31/12/23	165,761	–	–	165,761
	05/11/21	31/12/24	106,844	–	–	106,844
	28/04/22	01/07/25	130,620	–	–	130,620
Chris Brewster	06/06/19	06/06/22	76,636	31,821	44,815	31,821
	17/11/20	31/12/23	66,848	–	–	66,848
	05/11/21	31/12/24	43,806	–	–	43,806
	28/04/22	01/07/25	53,488	–	–	53,488

During the year, a total of 117,929 options over ordinary shares were also granted to certain members of the Senior Executive Team and Leadership Team.

On 6 June 2022, 73,732 and 31,821 options granted on 6 June 2019 vested to the CEO and CFO respectively.

Details of the performance targets set and actual achievement against them in respect of the 2019 LTIP awards vesting, based on three-year performance to 31 December 2021, are set out in the table below:

Performance measure	Weighting	Performance period end	Threshold (25% vesting)	Maximum (100% vesting)	Actual	% vesting for this part of the award
Underlying EPS	50%	31 December 2021	12.8p	14.7p	12.0p	0%
TSR	50%	31 December 2021	Median	Upper quartile	Between median and upper quartile	83%

These options have yet to be exercised; the participants have seven years in which to exercise these options.

Directors' interests in the share capital of the Company

The Directors' interests in the share capital of the Company as at 31 December 2022 and the movements during the year are set out below:

Director	Number of shares held as at 1 January 2022	Acquired/(disposed) during the period	Number of shares held as at 31 December 2022	Percentage of ISC as at 31 December 2022
Jan Boone	137,890	–	137,890	0.23
Chris Brewster	280,513	–	280,513	0.47
Marc Coucke	14,558,974	–	14,558,974	24.23
Ed Torr	107,455	–	107,455	0.18
Jennifer Winter	7,000	–	7,000	0.01

As at 1 January 2022, Nick Downshire had a beneficial interest in 1,011,620 shares and a non-beneficial interest of 152,037 shares; this number was the same when he ceased to be a Director on 7 June 2022.

Neither Doug Hutchens nor Sylvia Metayer has an interest in the share capital of the Company.

There were no changes in the Directors' interests in shares between 31 December 2022 and 15 May 2023.

ED TORR

Chair of the Remuneration and Nomination Committee

15 May 2023

Directors' Report

The Directors present their report, together with the audited financial statements of the Group and the Company for the year ended 31 December 2022.

Principal activities

Animalcare Group plc is a public limited company incorporated in England and Wales with registered number 01058015, which is listed on AIM, London Stock Exchange.

The principal activity of the Group during the period was the development, sale and distribution of licensed veterinary pharmaceuticals and identification products and services to Companion Animal, Production Animal and Equine veterinary markets.

Statutory information contained elsewhere in the Annual Report

Information required to be part of the Directors' Report can be found elsewhere in this document, as indicated, and is incorporated into this report by reference:

Results in the Chief Financial Officer's review contained within the Strategic Report.

The Corporate Governance statement.

The Group's financial risk management objectives in the Corporate Governance Report.

The Directors' Remuneration Report.

Details of the Company's exposure to price risk, credit risk, liquidity risk and cash flow risk can be found in the Notes to the Consolidated Financial Statements.

Details of the salaries, bonuses, benefits and share interests of Directors in the Directors' Remuneration Report.

Environmental disclosures can be found under the Sustainability part of the Strategic Report.

Details of the key issues and stakeholder considerations discussed by the Board during the year and how the Company engages with its stakeholders are set out in the Strategic Report, which includes the s172 Statement.

The Statement of Directors' Responsibilities is included elsewhere in the Governance section.

Likely future events are disclosed within the Strategic Report.

There are no post balance sheet events.

Dividend

An interim dividend of 2.0 pence per share was paid on 18 November 2022 to shareholders whose names were on the Register of Members at close of business on 21 October 2022.

Reflecting its continued confidence in the long-term prospects of the Group, the Board is recommending a final dividend of 2.4 pence per share (2021: 2.4 pence per share), giving a total dividend for the year of 4.4 pence (2021: 4.4 pence per share). Subject to shareholder approval at the Annual General Meeting to be held on Tuesday 13 June 2023, the final dividend will be paid on 14 July 2023 to shareholders whose names are on the Register of Members at close of business on Friday 16 June 2023. The ordinary shares will become ex-dividend on Thursday 15 June 2023.

Directors

The names of the current Directors of the Company up to the date of signing the financial statements and their biographical details are shown in the Board of Directors section. As reported in last year's Annual Report, Dr Doug Hutchens was appointed on 10 February 2022. There were two further changes during the reporting period, the appointment of Sylvia Metayer on 3 May 2022 and the resignation of Nick Downshire on 7 June 2022.

Share capital structure

The Company's issued share capital as at 31 December 2022 was £12,018,432.20 divided into 60,092,161 ordinary shares of 20.0 pence each. Full details relating to the Company's issued share capital can be found in the Notes to the Consolidated Financial Statements.

The Company's ordinary shares rank pari passu in all respects with each other, including for voting purposes and for all dividends. Ordinary shareholders are entitled to receive notice of, and to attend and speak at, any general meeting of the Company. On a show of hands, every shareholder present in person or by proxy (or being a corporation represented by a duly authorised representative) shall have one vote, and on a poll, every shareholder who is present in person or by proxy shall have one vote for every share they hold. The Notice of Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies. Further information on the voting and other rights of shareholders are set out in the Company's Articles of Association, which are available on the Company's website (www.animalcaregroup.com).

Other than the general provisions of the Articles of Association (and prevailing legislation), there are no specific restrictions on the size of a holding or on the transfer of any class of shares in the Company. No shareholder holds securities carrying any special rights or control over the Company's share capital.

Authority for the Company to purchase its own shares

Subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Act. Any shares which have been bought back may be held as treasury shares or cancelled immediately upon completion of the purchase.

At the AGM on 7 June 2022, the Company was generally and unconditionally authorised by its shareholders to make market purchases (within the meaning of section 693 of the Companies Act 2006) of up to a maximum of 6,009,216 of its ordinary shares. The Company has not repurchased any of its ordinary shares under this authority, which is due to expire on the date of this year's AGM.

Research and development

Our new product development programme is key to the future long-term growth and success of the Group and we are committed to the development of new and innovative products to meet the needs of our customers. Further information in relation to product development can be found in the Chief Executive Officer's Review. During the period under review, the Group incurred research and development expenditure, including additions to intangibles of £4.1m (2021: £4.5m).

Articles of Association

The rules governing the appointment and replacement of Directors are set out in the Company's Articles of Association. Amendments to the Articles of Association of the Company may be made by Special Resolution of the shareholders.

Financial instruments and risk management

Disclosures regarding risk management and financial instruments are provided within the Strategic Report and in the Notes to the Consolidated Financial Statements.

Directors' indemnities and liability insurance

The Company's Articles of Association (the "Articles") provide, subject to the provisions of UK legislation, an indemnity for Directors and officers of the Company and the Group in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers. The Company has made qualifying third-party indemnity provisions for the benefit of its Directors during the period and these remain in force at the date of this report.

The Group purchases and maintains directors' and officers' liability insurance for the benefit of its Directors, which was in place throughout the year ended 31 December 2022 and remains in place at the date of this report. The Company reviews its level of cover annually.

Political donations

No political donations were made during the year (2021: £nil).

Modern slavery

In compliance with the Modern Slavery Act 2015, the Company's Modern Slavery Statement can be found on the Company's website at www.animalcaregroup.com.

Stakeholder engagement and key decisions

Details of the key decisions and discussions of the Board during the year and the main stakeholder inputs into those decisions are set out in the Our Stakeholders part of the Strategic Report.

Employees

The Board recognises that the Group's performance and success are directly related to our ability to attract, retain and motivate high-calibre employees. We are committed to linking reward to business and individual performance, thereby giving employees the opportunity to share in the financial success of the Group. Employees are typically provided with financial incentives related to the performance of the Group in the form of annual bonuses. The Board also recognises senior management contribution through the use of long-term incentive plans within overall remuneration.

Applications for employment by disabled persons are given full and fair consideration. When existing employees become disabled, every effort is made to provide continuing employment wherever possible.

Significant shareholdings

The Company has been notified of the following interests or is otherwise aware of the following interests, representing 3% or more of the issued share capital of the Company as at 31 March 2023:

Name of holder	No. of ordinary shares	% Holding[1]
Alychlo NV	14,558,974	24.23
Liontrust Asset Management	7,583,585	12.62
SEB Investment Management AB	4,864,630	8.10
BlackRock, Inc.	4,414,981	7.35
Canaccord Genuity Wealth Management Inc	3,961,090	6.59
BGF Investment Management Ltd	3,556,839	5.92

1 Please note that percentage holdings are shown to two decimal places; full details of holdings can be found in the notifications of major holdings available on the London Stock Exchange website.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The going concern basis of accounting has therefore continued to be adopted in preparing the financial statements.

In reaching this conclusion the Directors have undertaken an assessment of the future prospects of the Group, taking into account the Group's current financial position and principal risks. This review considered forecasts of future trading, including working capital and investment requirements for 12 months from the reporting date that take into account reasonably possible changes in trading performance, in particular a "severe but plausible" downside scenario to factor in a range of downside revenue estimates, and higher than expected inflation across our cost base, with corresponding mitigating actions. Further details are included in the statement on going concern in the Notes to the Consolidated Financial Statements.

Disclosure of information to the auditors

Each of the persons who is a Director at the date of this Annual Report confirms that:

- So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and resolutions seeking to reappoint them and to authorise the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Company's Annual General Meeting is scheduled to be held on Tuesday 13 June 2023. The Notice of 2023 Annual General Meeting, including the resolutions to be proposed, is set out in a separate Notice of Meeting which accompanies this report and is available on the Company's website www.animalcaregroup.com/investors/shareholder-centre/agm/

Approval

The Strategic Report and this Directors' Report were approved by the Board on 15 May 2023 and signed on its behalf by

CHRIS BREWSTER

Chief Financial Officer and Company Secretary

15 May 2023

Statement of Directors' Responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the Company financial statements in accordance with UK-adopted international accounting standards.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CHRIS BREWSTER
Chief Financial Officer
and Company Secretary

15 May 2023

Independent Auditors' Report to the members of Animalcare Group plc

Report on the audit of the financial statements

Opinion

In our opinion, Animalcare Group plc's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2022 and of the group's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: Consolidated and Company statements of financial position as at 31 December 2022; the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statements of changes in equity, and the Consolidated and Company cash flow statements for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Our audit approach

Overview

AUDIT SCOPE

- The Group is organised into 14 reporting components and the Group financial statements are a consolidation of these reporting components. The reporting components vary in size.
- We identified five components that required a full scope audit of their financial information due to either their size or risk characteristics. Of these, Animalcare Group plc and Animalcare Ltd were audited by the Group engagement team. Ecuphar N.V.,Ecuphar Veterinaria S.L. and Ecuphar GmbH were audited by PwC component auditors.
- Additionally, STEM Animal Health Inc. was included for a full scope audit due to material disclosures with respect to its financial position and results that are included within the consolidated financial statements. This audit was undertaken by a non-PwC component auditor.
- Two reporting components were also subject to audit procedures performed by the Group engagement team. Belphar IDA required procedures over income tax liabilities and deferred taxes and Identicare Limited required procedures over service sales, right-of-use assets, lease liabilities, provisions and contract liabilities due to the contribution to the overall financial statement line items in the consolidated financial statements. The Group engagement team also audited material consolidation journals.
- As a result of this scoping we obtained coverage over 79% of the Group's revenues and 83% of the Group's underlying EBITDA.

KEY AUDIT MATTERS

- Carrying value of intangibles relating to products in development (group)
- Classification of items as non-underlying (group)
- Risk of impairment of investments in subsidiaries (parent)

MATERIALITY

- Overall group materiality: £325,000 (2021: £336,000) based on 2.5% of underlying Earnings Before Interest, Tax, Depreciation and Amortisation, adjusted for non-underlying items ('underlying EBITDA').
- Overall company materiality: £290,000 (2021: £210,000) based on 1% of total assets (capped below Group materiality).
- Performance materiality: £243,750 (2021: £252,000) (group) and £217,500 (2021: £157,500) (company).

The scope of our audit

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

Key audit matters

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

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

Carrying value of intangibles relating to products in development (group) and Classification of non-underlying items are new key audit matters this year. Carrying value of intangibles may be impaired (Group), which was a key audit matter last year, is no longer included because of a refinement of the assessed risk concluding that only intangible assets relating to products in development presented a heightened risk. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Carrying value of intangibles relating to products in development (group)	
The Group has a significant amount of product development related intangible assets of which a net book value of £1.5 million as at 31 December 2022 (2021: £1.6 million) relates to products which are not currently commercialised and therefore not amortised. This amount is spread across multiple intangible asset categories. Intangible assets not yet available for use are assessed annually for impairment. Management has prepared forecasts of future sales and margins which involve estimates, concluding that no impairment is required on these assets in the current year. See the summary of significant accounting policies section within the Consolidated financial statements for disclosure of the related accounting policies and Note 9 within the Consolidated financial statements for details of intangible assets.	We considered whether management's conclusion in relation to there being no impairment is appropriate through performing the following procedures: • We agreed the carrying values of the assets being assessed for impairment to the balance sheet and assessed the completeness of the assets categorised as not yet commercialised; • We reviewed the forecast financial performance of the projects not currently commercialised, tracing the forecast financial information to the latest Board approved budget and product development business cases, where applicable; • We held discussions with management to understand and challenge their forecasts; • We considered any contradictory evidence from related investment impairment reviews; and • We considered the accuracy of previous management forecasts. Based on the procedures performed, no issues have been noted with the carrying value of intangible assets relating to projects not currently commercialised. The carrying value and the associated disclosures within the consolidated financial statements are considered appropriate.

Independent Auditors' Report to the members of Animalcare Group plc CONTINUED

Key audit matter	How our audit addressed the key audit matter
Classification of items as non-underlying (group) 'Underlying EBITDA' is one of the Group's Alternative Performance Measures. Management uses this measure to improve the transparency and clarity of the Group's financial performance. Non-underlying items before taxes total £6.5 million (2021: £8.6 million) representing: • Amortisation and impairment of acquired intangible assets (£5.36 million); • Restructuring costs (£0.28 million); • Acquisition and integration costs (£0.34 million); • Charges relating to a long-term incentive plan (£0.22 million); • Income relating to divestments and business disposals (£0.15 million); • Costs associated with office relocations (£0.18 million); • Other non-underlying items where Management considers their nature and expected frequency of events giving rise to them, merit separate disclosure (£0.28 million). The risk we have focussed on is that the determination of which items are to be excluded from underlying results is subject to judgement and therefore the users of the Group financial statements could be misled if amounts are not classified and disclosed in a transparent manner and consistently with the Group's accounting policy. See the summary of significant accounting policies section within the Consolidated financial statements for disclosure of the related accounting policies and Note 4 within the Consolidated financial statements for details of non-underlying items.	We considered whether the classification of non-underlying items was appropriate. We performed the following procedures: • We reviewed management's definition and classification of non-underlying items, including the sub-categorisation of these items; • We obtained supporting evidence to corroborate the accuracy and completeness of non-underlying items; • We challenged management on the classification of non-underlying items through consideration of the application of the accounting policy including those items classified as 'other non-underlying items'; and • We challenged management over disclosures relating to non-underlying items to ensure that these were appropriate and consistent with the individual exceptional items and the work performed. Based on the procedures performed, we found no material issues and the non-underlying items are appropriately classified in accordance with the stated accounting policy.

Key audit matter	How our audit addressed the key audit matter
Risk of impairment of investments in subsidiaries (parent) The parent company has investments in subsidiary companies of £147.9 million (2021: £147.7 million), which is reviewed annually for impairment indicators with an impairment review performed where necessary. An impairment trigger has been identified due to the market capitalisation of the Group falling below the investment carrying value. No impairment charge has been recorded by management in the current year with respect to the carrying value of the investments in subsidiary companies balance within Animalcare Group plc. The risk we have focused on is that the investments in subsidiary companies balance could be overstated and an impairment charge may be required. We focused on this area because the determination of whether or not the investments in subsidiary companies are impaired involves significant assumptions about the future results and cash flows of the business and these assumptions are highly sensitive to reasonably possible changes. The headroom for the carrying value of investments is calculated by comparing the value in use of the Group, adjusted by net debt with the carrying value of the investments in subsidiary companies balance. The determination of the value in use includes a number of key assumptions which include: • Forecast cash flows for the next five years; • A long-term (terminal) growth rate applied beyond the end of the five-year forecast period; and • A discount rate applied to the model. See the significant accounting policies section within the Company only financial statements for disclosure of the related accounting policies, judgements and estimates and Note 6 within the Company only financial statements for details of the investments in subsidiary companies, including sensitivities for the impact of reasonably possible change in assumptions.	We understood and evaluated management's budgeting and forecasting process. We obtained the impairment analysis and performed the following procedures: • We tested the mathematical accuracy of the impairment model and agreed the carrying value of the investments balance to the balance sheet; • We challenged management's calculated Group weighted average cost of capital (WACC) used for discounting future cash flows within the impairment model, utilising valuation experts to assess the cost of capital for the Group and benchmarking this against comparable organisations; • We traced the forecast financial information within the model to the latest Board approved budget. We have also compared FY22 actuals to the FY23–FY27 forecasts and challenged management to provide support to corroborate trading and growth assumptions, support for operating and capital expenditure, including where required for new products, and considered the accuracy of previous forecasts; • We assessed the long-term growth rate used by comparing it to third-party forecast long-term growth rates utilising valuation experts; • We performed sensitivity analysis to ascertain the impact of reasonably possible changes in key assumptions; and • We challenged management over disclosures to ensure that these were appropriate and reflective of the sensitivity of key assumptions. In summary, we found, based on our audit work, the carrying value of investments in subsidiaries to be reasonable, albeit the assessment is highly sensitive to reasonably possible changes in assumptions, as disclosed within Note 6 within the Company only financial statements.

Independent Auditors' Report to the members of Animalcare Group plc CONTINUED

How we tailored the audit scope

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

The Group is organised into 14 reporting components and the Group financial statements are a consolidation of these reporting components. The reporting components vary in size. Our audit scope was determined by considering the significance of each component's contribution to underlying EBITDA, as well as considering the level of coverage obtained for each individual financial statement line item.

We identified five components that required a full scope audit of their financial information due to either their size or risk characteristics. Of these, Animalcare Group plc and Animalcare Ltd were audited by the Group engagement team. Ecuphar N.V., Ecuphar Veterinaria S.L. and Ecuphar GmbH were audited by PwC component auditors.

Additionally, STEM Animal Health Inc. was included for a full scope audit due to material disclosures with respect to its financial position and results that are included within the consolidated financial statements. This audit was undertaken by a non-PwC component auditor.

Two reporting components were also subject to audit procedures performed by the Group engagement team. Belphar IDA required procedures over income tax and deferred taxes and Identicare Limited required procedures over service sales, right-of-use assets, lease liabilities, provisions and contract liabilities due to the contribution to the overall financial statement line items in the consolidated financial statements. The Group engagement team also audited material consolidation journals.

The Group audit team supervised the direction and execution of the audit procedures performed by the PwC and non-PwC component audit teams.

Our involvement in their audit process, including reviewing their risk assessment, attending component clearance meetings, review of their reporting results and review of the supporting working papers for the five components in scope due to either their size or risk characteristics, together with the additional procedures performed at Group level, gave us the evidence required for our opinion on the consolidated financial statements as a whole.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process they have adopted to assess the extent of the potential impact of climate change risk on the Group's financial statements. Management considers that the impact of climate change does not give rise to a material financial statement impact.

We used our knowledge of the Group to evaluate management's assessment. We particularly considered how climate change risks would impact the assumptions made in the forecasts prepared by management used in their impairment analyses. We discussed with management the ways in which climate change disclosures should continue to evolve as the Group continues to develop its response to the impact of climate change. We also considered the consistency of the disclosures in relation to climate change made in the other information within the Annual Report with the financial statements and our knowledge from our audit.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole, or our key audit matters for the year ended 31 December 2022.

Materiality

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

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

	Financial statements - group	Financial statements - company
Overall materiality	£325,000 (2021: £336,000).	£290,000 (2021: £210,000).
How we determined it	2.5% of underlying Earnings Before Interest, Tax, Depreciation and Amortisation, adjusted for non-underlying items ('underlying EBITDA')	1% of total assets (capped below Group materiality)
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, underlying EBITDA, is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.	We believe that total assets are considered to be appropriate as the entity is not a profit-oriented company. The Company is a holding company only and total assets is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £70,000 to £308,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £243,750 (2021: £252,000) for the group financial statements and £217,500 (2021: £157,500) for the company financial statements.

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £16,250 (group audit) (2021: £16,800) and £16,250 (company audit) (2021: £10,500) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- We assessed management's basecase forecast, as well as their severe but plausible downside scenario, which have formed the basis for the Group's assessment and conclusions with respect to their ability to continue as a going concern;
- We have considered the availability of bank facilities and compliance with the related covenants over the going concern period;
- We evaluated the historical accuracy of the budgeting process to assess the reliability of the forecasts;
- We held discussions with management to understand and challenge the rationale behind the assumptions made, using our knowledge of the business and industry;
- We compared the latest trading results for the year to date in 2023 to management's forecast; and
- We reviewed the disclosures within the Annual Report with respect to going concern.

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

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

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

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

Independent Auditors' Report to the members of Animalcare Group plc CONTINUED

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to legislation specific to the veterinary sector in which the Group operates (such as the Veterinary Medicines Regulations 2013), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue, reduce expenditure or reclassify items above or below the EBITDA line to manipulate the financial performance of the business, and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Discussions with management and the Group's legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Enquiries with component auditors;
- Review of correspondence with legal advisers;
- Obtaining direct confirmations from legal advisers;
- Identifying and testing unusual journal entries which increase revenue, reduce expenditure or reclassify items above or below the EBITDA line to manipulate the financial performance of the business, or contain certain unusual key words such as fraud; and
- Assessing key judgements and estimates made by management for evidence of inappropriate bias. The key judgements and estimates for the Group relate to the carrying value of investments, the carrying value of intangible assets and the classification on non-underlying items.

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

KATE FINN
(SENIOR STATUTORY AUDITOR)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

15 May 2023

Consolidated Income Statement

YEAR ENDED 31 DECEMBER 2022

	Notes	**Underlying 2022 £'000**	**Non-Underlying (note 4) 2022 £'000**	**Total 2022 £'000**	Underlying 2021 £'000	Non-Underlying (note 4) 2021 £'000	Total 2021 £'000
		For the year ended 31 December					
Revenue		**71,616**	**–**	**71,616**	74,024	–	74,024
Cost of sales	6.1	**(30,957)**	**–**	**(30,957)**	(34,606)	–	(34,606)
Gross profit		**40,659**	**–**	**40,659**	39,418	–	39,418
Research and development expenses	6.2	**(2,363)**	**(667)**	**(3,030)**	(2,181)	(951)	(3,132)
Selling and marketing expenses	6.3	**(13,547)**	**–**	**(13,547)**	(12,277)	–	(12,277)
General and administrative expenses	6.4	**(15,000)**	**(4,013)**	**(19,013)**	(14,482)	(4,580)	(19,062)
Impairment losses		**–**	**(918)**	**(918)**	–	(2,761)	(2,761)
Net other operating income/(expense)	6.5	**4**	**(919)**	**(915)**	115	(312)	(197)
Operating profit/(loss)		**9,753**	**(6,517)**	**3,236**	10,593	(8,604)	1,989
Finance costs	6.8	**(1,752)**	**–**	**(1,752)**	(2,613)	–	(2,613)
Finance income	6.9	**1,110**	**–**	**1,110**	1,757	–	1,757
Finance costs net		**(642)**	**–**	**(642)**	(856)	–	(856)
Share of net loss of joint venture accounted for using the equity method	11	**(52)**	**–**	**(52)**	(188)	–	(188)
Profit/(loss) before tax		**9,059**	**(6,517)**	**2,542**	9,549	(8,604)	945
Income tax expense	6.10	**(1,487)**	**910**	**(577)**	(2,325)	1,303	(1,022)
Profit/(loss) for the period		**7,572**	**(5,607)**	**1,965**	7,224	(7,301)	(77)
Net profit/(loss) attributable to:							
The owners of the parent		**7,572**	**(5,607)**	**1,965**	7,224	(7,301)	(77)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:							
Basic earnings per share	7	**12.6p**	**–**	**3.3p**	12.0p	–	(0.1p)
Diluted earnings per share	7	**12.5p**	**–**	**3.2p**	12.0p	–	(0.1p)

In order to aid understanding of underlying business performance, the Directors have presented underlying results before the effect of exceptional and other items. These exceptional and other items are categorised as 'non-underlying' and are analysed in detail in note 4 to these financial statements. The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

YEAR ENDED 31 DECEMBER 2022

	For the year ended 31 December	
	2022 £'000	2021 £'000
Profit/(loss)	**1,965**	(77)
Other comprehensive income/(expense)		
Exchange differences on translation of foreign operations	**488**	(638)
Other comprehensive income/(expense), net of tax	**488**	(638)
Total comprehensive income/(expense) for the year, net of tax	**2,453**	(715)
Total comprehensive income/(expense) attributable to:		
The owners of the parent	**2,453**	(715)

* May be reclassified subsequently to profit and loss

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2022

	Notes	As at 31 December 2022 £'000	restated* 2021 £'000
Assets			
Non-current assets			
Goodwill	8	**50,853**	50,337
Intangible assets	9	**25,283**	30,213
Property, plant and equipment	10	**448**	132
Right-of-use-assets	23	**2,924**	1,658
Investments in joint ventures	11	**1,305**	1,290
Deferred tax assets	6.10	**3,567**	1,963
Other financial assets		**70**	90
Other non-current assets	13	**–**	24
Total non-current assets		**84,450**	85,707
Current assets			
Inventories	12	**13,474**	10,328
Trade receivables	13	**13,568**	7,135
Other current assets	13	**715**	1,200
Cash and cash equivalents	14	**6,035**	5,633
Total current assets		**33,792**	24,296
Total assets		**118,242**	110,003
Liabilities			
Current liabilities			
Lease liabilities	23	**(852)**	(723)
Trade payables	15	**(15,497)**	(10,021)
Current tax liabilities	6.10	**(623)**	(471)
Accrued charges and contract liabilities	19	**(1,276)**	(1,083)
Other current liabilities	20	**(4,027)**	(2,156)
Total current liabilities		**(22,275)**	(14,454)
Non-current liabilities			
Borrowings	16	**(8,426)**	(9,243)
Lease liabilities	23	**(2,159)**	(996)
Deferred tax liabilities	6.10	**(4,773)**	(4,271)
Contract liabilities	19	**(372)**	(675)
Provisions	17	**(340)**	(408)
Other non-current liabilities	18	**(911)**	(1,157)
Total non-current liabilities		**(16,981)**	(16,750)
Total Liabilities		**(39,256)**	(31,204)
Net assets		**78,986**	78,799
Equity			
Share capital	22	**12,019**	12,019
Share premium	22	**132,798**	132,798
Reverse acquisition reserve		**(56,762)**	(56,762)
Accumulated losses	22	**(11,977)**	(11,676)
Other reserves		**2,908**	2,420
Equity attributable to the owners of the parent		**78,986**	78,799
Total equity		**78,986**	78,799

* Restated as detailed in Note 29

The accompanying notes on pages 86 to 130 form an integral part of these consolidated financial statements.

The financial statements on pages 80 to 130 were approved by the board of directors and authorised for issue on 15 May 2023. They were signed on their behalf by:

JENNIFER WINTER
Chief Executive Officer

CHRIS BREWSTER
Chief Financial Officer

Consolidated Statement of Changes in Equity

YEAR ENDED 31 DECEMBER 2022

	Attributable to the owners of the parents					
	Share capital £'000	Share premium £'000	Accumulated losses £'000	Reverse acquisition reserve £'000	Other reserve £'000	Total equity £'000
At 1 January 2022	**12,019**	**132,798**	**(11,676)**	**(56,762)**	**2,420**	**78,799**
Net profit	**–**	**–**	**1,965**	**–**	**–**	**1,965**
Other comprehensive income	**–**	**–**	**–**	**–**	**488**	**488**
Total comprehensive income	**–**	**–**	**1,965**	**–**	**488**	**2,453**
Dividends paid	**–**	**–**	**(2,644)**	**–**	**–**	**(2,644)**
Share-based payments	**–**	**–**	**378**	**–**	**–**	**378**
At 31 December 2022	**12,019**	**132,798**	**(11,977)**	**(56,762)**	**2,908**	**78,986**

	Attributable to the owners of the parents					
	Share capital £'000	Share premium £'000	Accumulated losses £'000	Reverse acquisition reserve £'000	Other reserve £'000	Total equity £'000
At 1 January 2021	12,012	132,729	(9,445)	(56,762)	3,058	81,592
Loss of the year	–	–	(77)	–	–	(77)
Other comprehensive expense	–	–	–	–	(638)	(638)
Total comprehensive expense	–	–	(77)	–	(638)	(715)
Dividends paid	–	–	(2,403)	–	–	(2,403)
Exercise of share options	7	69	–	–	–	76
Share-based payments	–	–	249	–	–	249
At 31 December 2021	12,019	132,798	(11,676)	(56,762)	2,420	78,799

Reverse acquisition reserve

Reverse acquisition reserve represents the reserve that has been created upon the reverse acquisition of Animalcare Group plc.

Other reserve

Other reserve mainly relates to currency translation differences. These exchange differences arise on the translation of subsidiaries with a functional currency other than sterling.

Consolidated Cash Flow Statement

YEAR ENDED 31 DECEMBER 2022

	Notes	For the year ended 31 December 2022 £'000	restated* 2021 £'000
Operating activities			
Profit before tax		**2,542**	945
Non-cash and operational adjustments			
Share in net loss of joint venture	11	**52**	188
Depreciation of property, plant and equipment	10/23	**1,118**	1,185
Amortisation of intangible assets	9	**6,685**	7,217
Impairment of intangible assets	9	**918**	2,761
Share-based payment expense	26	**542**	249
Gain on disposal of intangible assets		**(146)**	(396)
Non-cash movement in provisions		**202**	120
Movement allowance for bad debt and inventories		**105**	760
Finance income		**(260)**	(459)
Finance expense		**1,001**	1,221
Impact of foreign currencies		**(235)**	88
Fair value adjustment contingent consideration		**140**	(17)
Non-cash movement in IFRS16 liability		**(6)**	–
Movements in working capital			
(Increase)/decrease in trade receivables		**(5,875)**	3,541
(Increase)/decrease in inventories		**(2,735)**	1,356
Increase/(decrease) in payables		**6,706**	(2,698)
Income tax paid		**(1,325)**	(2,038)
Net cash flow from operating activities		**9,429**	14,023
Investing activities			
Purchase of property, plant and equipment	10	**(407)**	(58)
Purchase of intangible assets	9	**(2,540)**	(3,157)
Proceeds from the sale of intangible assets		**153**	540
Capital contribution in joint venture	11	**(325)**	(289)
Net cash flow used in investing activities		**(3,119)**	(2,964)
Financing activities			
Repayment of loans and borrowings		**(1,320)**	(6,952)
Repayment of IFRS 16 lease liability	23	**(996)**	(1,024)
Receipts from issue of share capital		**–**	76
Dividends paid	22	**(2,644)**	(2,403)
Interest paid		**(444)**	(447)
Other financial expense		**(292)**	(213)
Net cash flow used in financing activities		**(5,696)**	(10,963)
Net increase of cash and cash equivalents		**614**	96
Cash and cash equivalents at beginning of year	14	**5,633**	5,265
Exchange rate differences on cash and cash equivalents		**(212)**	272
Cash and cash equivalents at end of year	14	**6,035**	5,633

	Notes	For the year ended 31 December 2022 £'000	restated* 2021 £'000
Reconciliation of net cash flow to movement in net debt			
Net increase in cash and cash equivalents in the year		**614**	96
Cash flow from decrease in debt financing		**1,320**	6,952
Foreign exchange differences on cash and borrowings		**(715)**	1,146
Movement in net debt during the year		**1,219**	8,194
Net debt at the start of the year		**(5,330)**	(13,616)
Movement in lease liabilities during the year	23	**(1,291)**	92
Net debt at the end of the year		**(5,402)**	(5,330)

* Restated as detailed in Note 29

Notes to the Consolidated Financial Statements

YEAR ENDED 31 DECEMBER 2022

1. Financial information

Animalcare Group plc ("the Company") is a public company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is domiciled in the United Kingdom. The address of its registered office is Moorside, Monks Cross, York, YO32 9LB. The Group comprises Animalcare Group plc and its subsidiaries. The nature of the Group's operations and its principal activities are set out within the Directors' Report. Details of the subsidiaries can be found in note 28.

2. Basis of preparation

The Group financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards ("IFRS") and the applicable legal requirements of the Companies Act 2006 under the historical cost convention. They have also been prepared in accordance with the requirements of the AIM Rules.

The consolidated financial statements are presented in thousands of pound sterling (£k or thousands of £) and all "currency" values are rounded to the nearest thousand (£000), except when otherwise indicated.

Note that Animalcare Group plc has provided a guarantee under section 479a of the Companies Act 2006 to Identicare Limited for the company to take exemption from audit.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 3. The accounting policies have been applied consistently.

Changes to significant accounting policies are described in note 3.

The consolidated financial statements cover the year ended 31 December 2022 and comprise the consolidated results of the Group.

In preparing the financial statements of the Group we have considered the impact of climate change, with reference to our principal risks and the environmental disclosures made in the Sustainability report. There has been no material impact on the financial statements for the current year, including estimates and judgements made in respect of impairment and going concern analyses. The Directors have also assessed climate change is not expected to have a meaningful impact on the Group in the medium term. The Group's analysis on the impact of climate change continues to evolve as part of our ESG agenda.

Going concern

The Group's financing arrangements consist of a committed revolving credit facility of €41.5m (£36.8m) and a €10.0m (£8.9m) acquisition line, the latter of which cannot be utilised to fund our operations.

The facilities remain subject to the following covenants which are in operation at all times:

Net debt to underlying EBITDA ratio of 3.5 times; underlying EBITDA to interest ratio of minimum 4 times; and solvency (total assets less goodwill/total equity less goodwill) greater than 25%. As at 31 December 2022 and throughout the financial year, all covenant requirements were met with significant headroom across all three measures. The principal risks and uncertainties facing the Group are set out in the Strategic Report.

The Directors have prepared cash flow forecasts for a period of at least 12 months from the date of signing of these financial statements (the going concern assessment period). These forecasts indicate that the Group will have sufficient funds and liquidity to meet its obligations as they fall due, taking into account the potential impact of "severe but plausible" downside scenarios to factor in a range of downside revenue estimates and higher than expected inflation across our cost base, with corresponding mitigating actions. The output from these scenarios shows the Group has adequate levels of liquidity from its committed facilities and complies with all its banking covenants throughout the going concern assessment period. Accordingly, the Directors continue to adopt the going concern basis of preparation.

3. Summary of significant accounting policies

Basis for consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries.

Entities are fully consolidated from the date of acquisition, which is the date when the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the entities are prepared for the same reporting period as the parent Company, using consistent accounting policies. All intra-Group balances, transactions, unrealised gains and losses resulting from intra-Group transactions and dividends are fully eliminated.

The Group attributes profit or loss and each component of other comprehensive income to the owners of the parent Company and to the non-controlling interest based on present ownership interests, even if the results in the non-controlling interest have a negative balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over the subsidiary, it will derecognise the assets (including goodwill) and liabilities of the subsidiary, any non-controlling interest and the other components that are equity related to the subsidiary. Any surplus or deficit arising from the loss of control is recognised in profit or loss. If the Group retains an interest in the previous subsidiary, then such interest is measured at fair value at the date the control is lost.

The proportion allocated to the parent and non-controlling interests in preparing the consolidated financial statements is determined based solely on present ownership interests.

Non-underlying items

The Directors believe that presenting the Group's financial results on an underlying basis, which excludes non-underlying items, offers a clearer picture of business performance and hence provides useful information for shareholders. These measures are used by the Board and management for planning, internal reporting and setting Director and management incentive arrangements. In addition they are used by the investor analyst community and are aligned to our strategy and KPIs. Underlying measures are not intended to be a substitute for, or superior to, IFRS results which include non-underlying items to provide the statutory results.

Non-underlying items are items of income or expense which, because of either their nature and/or the expected frequency of the events giving rise to them, merit separate presentation and disclosure as detailed in note 4. The following key items are adjusted for in the calculation of underlying operating profit:

- Amortisation and impairment of acquired intangible assets – these items are a result of past transactions, principally the reverse acquisition of Animalcare Group plc and the pre-reverse acquisition of Esteve, and therefore although they are recorded as a cost to the Group each financial year, do not reflect the current or future business performance and cash outflows. Impairment is classified as non-underlying due to the significance and one-off nature.
- Acquisition and integration costs – these items principally relate to acquisition and subsequent integration activity which we view as strategic in nature, and therefore they are excluded from underlying EBITDA, hence underlying operating profit, as this is principally used to manage the performance of our operations
- Restructuring costs – the Group has recognised restructuring costs in a number of financial years since the reverse acquisition in 2017 and we expect such costs will likely arise in future as the Group develops and evolves. Certain of the more significant historic restructuring activities have spanned financial years, while in more recent years, notwithstanding costs are presented in the current and prior period, the costs are associated with separate and unrelated organisational restructuring and rationalisation activities. As such, the specific nature of the activities will be explained in note 4 or its future equivalent. As with acquisition and integration costs, we consider restructuring costs strategic in nature, and therefore they are excluded from underlying EBITDA, hence underlying operating profit, as this is principally used to manage the performance of our operations
- Gains and losses on divestment of fixed and intangible assets – the Group has made certain product divestments while undertaking a strategic review and rationalisation of our product portfolio. Gains and losses arising from such divestments are excluded from underlying results given their infrequency and non-trading nature
- Share based payments in respect of Identicare Ltd (see note 26) – while the Group continues to recognise share-based payment costs in relation to the Long-Term-Incentive-Plan within its underlying results, the charge in relation to the new Identicare share-based payment arrangement incepted on 1 January 2022 has been treated as non-underlying. The key driver of this treatment and presentation is that the growth shares issued deliver value to the holder based on either the sale of Identicare, or after five years, the market value via a put option. As such, the plan is connected to the future value of Identicare and not trading (as the Group does not have a history of trading investments). In addition, as part of the arrangement is treated as cash-settled, this will likely create volatility in our results arising from movements in the fair value of this arrangement.

3. Summary of significant accounting policies (CONTINUED)

Non-controlling interests

The Group has the choice, on a transaction-by-transaction basis, to initially recognise any non-controlling interest in the acquiree which is a present ownership interest and entitles its holders to a proportionate share, of the entity's net assets in the event of liquidation at either acquisition date fair value or, at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. Other components of non-controlling interest such as outstanding share options are generally measured at fair value.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee. Operating segments are aggregated when they have similar economic characteristics which is the case when there is similarity in terms of: (a) the nature of the products and services; (b) the nature of the production processes; (c) the type or class of customer for their products and services; (d) the methods used to distribute their products or provide their services; and (e) if applicable, the nature of the regulatory environment.

Foreign currency translation

FUNCTIONAL AND PRESENTATION CURRENCY

The Group's consolidated financial statements are presented in pounds sterling (GBP) which is the Group's presentational currency. For each entity, the Group determines the functional currency, and items included in the financial statements of each entity are measured using the functional currency. The functional currency of most subsidiaries of the Group is euros. The statement of financial position is translated into GBP at the closing rate on the reporting date and their income statement is translated at the average exchange rate at month-end for both the years ended 31 December 2021 and 2022. Differences resulting from the translation of the financial statements of the parent and the subsidiaries are recognised in other comprehensive income as "Exchange differences on translation of foreign operations".

FOREIGN CURRENCY TRANSACTIONS

Transactions denominated in foreign currencies are translated into functional currency at spot rate at the transaction date. Monetary items in the statement of financial position are translated at the closing rate at each reporting date and the relevant translation adjustments are recognised in financial or operating result depending on its nature.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Repair and maintenance costs are recognised in the income statement as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

• Equipment	5 years
• Office furniture and office equipment	3–5 years or lease term if shorter
• Leasehold improvements	5 years or lease term if shorter
• Warehouse and office fittings	5–10 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate.

Leases

The Group leases various vehicles and buildings. Rental contracts are typically made for fixed periods of one year to ten years but may have extension options. Contracts may contain both lease and non-lease components. However, for lease of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. 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, but leased assets may not be used as security for borrowing purposes.

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

- fixed payments, less any lease incentives receivable;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the lessee's incremental borrowing rate, which is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as a starting point to determine the incremental borrowing rate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

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

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The term varies between four to five years.

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

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 only by the Group and not by the respective lessor.

Goodwill

Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is attributable to one cash-generating unit for the purpose of impairment testing, being the lowest level at which business operations are monitored for internal management purposes.

3. Summary of significant accounting policies (CONTINUED)

Intangible assets

Intangible assets comprise the acquired product portfolio's, Research & Development assets, licensing and distribution rights, customers acquired in connection with business combinations, product portfolios and product development costs, capitalised software and assets under construction related to intangible assets.

The useful life of the intangible assets is as follows:

• Capitalised software	5 years
• Patents, distribution rights and licenses	7–12 years
• Product portfolios and product development	10 years
• Research & Development assets	10 years

Intangible assets not yet available for use are assessed annually for impairment. Assets under construction are not amortised.

INTANGIBLE ASSETS ACQUIRED SEPARATELY

Intangible assets with finite useful lives which are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement based on its function which may be "cost of sales", "sales and marketing expenses", "research and development expenses" and "general and administrative expenses".

Further, the Group has acquired certain intangible assets related to licenses with a fixed and variable consideration contingent upon the realisation of certain milestones and sales volumes. Due to the recognition of this license asset, the group extends its accounting policies on intangible assets as follows:

The Group recognises an intangible asset for licenses obtained initially measured at the fixed consideration paid. The variable consideration subject to the realisation of the milestones will only be recognised when the milestones are met and will be recognised as an addition to the intangible license asset to the extent the milestone represents additional license consideration. Once market authorisation is obtained, the Group will start amortising the intangible asset over its useful life and recognise any future milestone payments as a cost of sale.

The Group recognises an intangible asset for licenses obtained initially measured at the fixed consideration paid. The variable consideration subject to the realisation of the milestones will only be recognised when the milestones are met and will be recognised as an addition to the intangible license asset. Once market authorisation is obtained, the Group will start amortising the intangible asset over its useful life and recognise any future milestone payments as a cost of sale.

INTERNALLY GENERATED INTANGIBLE ASSETS – RESEARCH AND DEVELOPMENT EXPENDITURES

Research and development includes the costs incurred by activities related to the development of software solutions (new products, updates and enhancements), guides and other products. Expenditures in research and development activities are recognised as an expense in the period in which they are incurred.

Development activities involve the application of research findings or other knowledge to a plan or a design of new or substantially improved (software) products before the start of the commercial use.

Internal development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset;
- the ability to measure reliably the expenditure during development.

Internal development expenditures not satisfying the above criteria and expenditures on the research phase are recognised in the consolidated income statement as incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets which are acquired separately.

INTANGIBLE ASSETS ACQUIRED IN A BUSINESS COMBINATION

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are measured at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets which are acquired separately.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Impairment tests on goodwill are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest Group of assets to which it belongs for which there are separately identifiable cash flows; its cash-generating units ("CGUs"). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from the synergies of the combination giving rise to the goodwill.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to future cash flows projected after the fifth year.

Impairment charges are included in profit or loss, except, where applicable, to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Investments in joint ventures

The Group carries an investment in a joint venture STEM Animal Health Inc. ('STEM'). The Group's investments in its joint venture are accounted for using the equity method.

Under the equity method, the investment in the joint venture was initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The income statement reflects the Group's share of the results of operations of the joint venture. Any change in other comprehensive income of the joint venture is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of the change in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its joint venture.

At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the Group's interest in the joint venture (higher of value in use and fair value less costs to sell), and then recognises the loss as "Share of profit or loss of joint ventures" in the income statement.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials: purchase cost on a first in, first out basis;
- Goods purchased for resale: purchase cost on a first in, first out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

3. Summary of significant accounting policies (CONTINUED)

Financial assets

Financial assets are classified at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus transaction costs, in the case of a financial asset not at fair value through profit or loss or OCI. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

For purposes of subsequent measurement, financial assets are classified in two categories:

- Financial assets at amortised cost; and
- Financial assets at fair value through profit or loss.

FINANCIAL ASSETS MEASURED AT AMORTISED COST

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets, trade and other receivables, cash and cash equivalents at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group has the following financial assets classified as financial assets at fair value through profit or loss:

- A call option on an additional stake in STEM as disclosed in Note 11 on Investments in Joint ventures.

Those financial assets are carried in the statement of financial position at fair value with changes recognised in the income statement in the lines financial income/expense.

DERECOGNITION

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the assets.

IMPAIRMENT OF FINANCIAL ASSETS

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. A loss allowance is recognised at each reporting date based on lifetime ECLs. The Group established a provision matrix that is based on its historical loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For all other receivables, ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Financial liabilities

The Group has financial liabilities measured at amortised cost which include loans and borrowings, trade payables and other payables and financial liabilities resulting from an interest rate swap.

FINANCIAL LIABILITIES AT AMORTISED COST

Those financial liabilities are recognised initially at fair value plus directly attributable transaction costs and are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

DERIVATIVE FINANCIAL LIABILITIES

The Group uses derivative financial instruments to hedge the exposure to changes in interest rates; however, the use of derivatives is limited and does not represent significant amounts. Derivative financial instruments are initially measured at fair value. After initial recognition, the financial instruments are measured at fair value through profit or loss.

Such hedging transactions do not qualify for hedge accounting criteria, although they offer economic hedging according to the Group's risk policy. Changes in the fair value of such instruments are recognised directly in the consolidated statement of profit or loss.

DERECOGNITION

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Share capital

Financial instruments issued by the Group are classified as share capital only to the extent that they do not meet the definition of a financial liability or financial asset. The Group's ordinary shares are classified as equity instruments.

Dividends

Dividends paid are recognised within the statement of changes in equity only when an obligation to pay the dividends arises prior to the year end.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of such equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions (with a corresponding movement in equity).

Fair value is measured by use of the Black–Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value of the shares issued under the new Long-Term Incentive Plan were valued on a discounted cash flow basis in conjunction with a third-party valuation specialist.

For cash-settled share-based payments, a liability is recognised for the goods and services acquired, measured initially at the fair value of the liability. At the balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the period. Shares already in issue subject to potential redemption by the Group are held as liabilities, measured at the present value of the redemption amount.

Details of the arrangements in place are given in note 26, along with details of the derivation of fair value.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Employee benefits

SHORT-TERM EMPLOYEE BENEFITS

The Group has short-term employee benefits which are recognised when the service is performed as a liability and expense. The short-term employee benefit is the undiscounted amount expected to be paid.

MANAGEMENT INCENTIVE PLANS

The Group has implemented an incentive plan for some of its employees. The liability recognised is the undiscounted amount expected to be paid.

EMPLOYEE BENEFITS – PENSIONS

The Group operates a stakeholder pension scheme available to all eligible employees. Payments to this scheme are charged as an expense as they fall due.

3. Summary of significant accounting policies (CONTINUED)

Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration and excludes intra-group sales and value added and similar taxes. The primary performance obligation is the transfer of goods to the customer. Revenue from the sale of goods is recognised when control of the goods is transferred to the customer, at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods.

As sales arrangements differ from time to time (for example by customer and by territory), each arrangement is reviewed to ensure that revenue is recognised when control of the goods has passed to the customer. This review and the corresponding recognition of revenue encompass a number of factors which includes, but is not limited to, reviewing delivery arrangements and whether the buyer has accepted title, recognising revenue at the point at which full title has passed.

Provision for rebates and discounts is reflected in the transaction price at the point of recognition to the extent that it is highly probable there will not be a significant reversal. The methodology and assumptions used to estimate rebates and discounts are based on contractual and legal obligations, and historical trends and averages based on the last 12 months.

SALES OF SERVICES

The Group recognises service revenue by reference to the stage of completion. As there is no contractual restriction on the amount of times the customer makes use of the services, at the commencement of the contract, it is not possible to determine how many times the customer will make use of the services, nor does historical evidence provide indications of any future pattern of use. As such, income is recognised evenly over the term of the contract. Service sales includes commission income which is recognised at a point in time.

Up-front income received in relation to long-term service contracts is deferred and subsequently recognised over the life of the relevant contracts.

Interest income

For all financial instruments measured at amortised cost, interest income would be recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income would be included under financial income in the income statement.

Financing costs

Financing costs relate to interests and other costs incurred by the Group related to the borrowing of funds. Such costs mostly relate to interest charges on short- and long-term borrowings as well as the amortisation of additional costs incurred on the issuance of the related debt. Financing costs are recognised in profit and loss for the year or capitalised in case they are related to a qualifying asset.

Other financial income and expenses

Other financial income and expenses include mainly foreign currency gains or losses on financial transactions and bank-related expenses.

Taxes

CURRENT INCOME TAX

Income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, at the reporting date.

Current income tax relating to items that are recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

DEFERRED TAX

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Events after balance sheet date

Events after the balance sheet date which provide additional information about the Company's position as at the balance sheet date (adjusting events) are reflected in the financial statements. Events after the balance sheet date which are not adjusting events are disclosed in the notes if material.

New standards adopted as of 2022

Standards and interpretations applicable for the annual period beginning on or after 1 January 2022:

- Amendment to IFRS 16 Leases: COVID-19-Related Rent Concessions beyond 30 June 2021 (applicable for annual periods beginning on or after 1 April 2021)
- Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use (applicable for annual periods beginning on or after 1 January 2022)
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts — Cost of Fulfilling a Contract (applicable for annual periods beginning on or after 1 January 2022)
- Amendments to IFRS 3 Business Combinations: Reference to the Conceptual Framework (applicable for annual periods beginning on or after 1 January 2022)
- Annual Improvements to IFRS Standards 2018–2020 (applicable for annual periods beginning on or after 1 January 2022)

The Group has no transactions that would be affected by the newly effective standards or its accounting policies are already consistent with the new requirements. The group has not early adopted any standards.

Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2022

The IFRS accounting standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards and interpretations, if applicable, when they become effective. These new standards will have no material impact on the Group's financial statements.

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (applicable for annual periods beginning on or after 1 January 2024 or later, but not yet endorsed in the UK)
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (applicable for annual periods beginning on or after 1 January 2023)

3. Summary of significant accounting policies (CONTINUED)

- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (applicable for annual periods beginning on or after 1 January 2023)
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (applicable for annual periods beginning on or after 1 January 2023)
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (applicable for annual periods beginning on or after 1 January 2024, but not yet endorsed in the UK)

Significant accounting judgements

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities for future periods.

On an ongoing basis, the Group evaluates its estimates, assumptions and judgements, including those related to revenue recognition, development expenses, income taxes, impairment of goodwill, intangible assets and property, plant and equipment and investments in joint ventures.

The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

INTERNALLY DEVELOPED INTANGIBLE ASSETS

Under IAS 38, internally generated intangible assets from the development phase are recognised if certain conditions are met. These conditions include the technical feasibility, intention to complete, the ability to use or sell the asset under development, and the demonstration of how the asset will generate probable future economic benefits. The cost of a recognised internally generated intangible asset comprises all directly attributable costs necessary to make the asset capable of being used as intended by management. In contrast, all expenditures arising from the research phase are expensed as incurred.

Determining whether internally generated intangible assets from development are to be recognised as intangible assets requires significant judgement, particularly in determining whether the activities are considered research activities or development activities, whether the product enhancement is substantial, whether the completion of the asset is technically feasible considering a company-specific approach, and the probability of future economic benefits from the sale or use.

Management has determined that the conditions for recognising internally generated intangible assets from product development activities are not met until shortly before the developed products are available for sale. This assessment is monitored by the Group on a regular basis.

INCOME TAXES

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

As at 31 December 2022, the Group had £2,565k (2021: £1,749k) of tax losses carried forward and other tax credits such as investment tax credits and notional interest deduction. These losses relate to the subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group.

IMPAIRMENT OF GOODWILL

The Group has goodwill for a total amount of £50,853k (2021: £50,337k) which has been subject to an impairment test. The goodwill is tested for impairment based on the value in use (VIU). The key assumptions for the VIU calculations are disclosed and further explained in Note 8.

STEM ANIMAL HEALTH INC. – JOINT CONTROL

On 28 September 2020 the Group announced that it has entered into an agreement with Canada-based biotech company Kane Biotech Inc. under which the parties formed

STEM Animal Health Inc. ("STEM"), a company dedicated to treating biofilm-related ailments in animals. The Group acquired, via its 100% subsidiary Ecuphar NV, 33.34% in STEM for a cash consideration of CA$3m, of which CA$1.5m was already paid in prior years, CA$0.5m during the financial year and CA$1.0m still payable over 20 months.

The Group has a call option, for a period until September 28 2026, to acquire an additional 18.0% in STEM for CA$4 million. Based on the existing voting rights (33.34%) and other contractual arrangements, the Group does not have power over the investee. Accordingly, the investment in STEM is accounted through the equity method in the consolidated financial statements.

Separately, the Group also entered into a licensing agreement under which it will invest a further CA$2m, consisting of an initial payment along with a series of potential payments linked to various milestones, for rights to commercialise products in global veterinary markets outside the Americas.

Both the remaining equity investment in STEM and the licensing fee are expected to be paid from existing cash resources.

In the prior year, the Group made its first license payment of CA$0.5m. The following payment is due in 2023, resulting in a short-term payment of CA$692k or £425k, and a long-term payable of CA$748k or £459k.

Further, for the capital contribution, the outstanding short-term liability is £292k (2021: £277k), shown in the balance sheet as other current liability. The outstanding long-term liability is £254k (2021: £502k), shown in the balance sheet as other non-current liability.

In determining the appropriate accounting treatment for STEM, management applied significant judgement. If management's judgements were to change, this would result in consolidating STEM.

The following are the key considerations and judgements applied by management in concluding:

- STEM established during 2020 with a global license over Kane Biotech's existing range of animal health oral care products, where Kane grants STEM an irrevocable, exclusive, fully paid up, royalty-free right and license in the market and to develop, manufacture and commercialise the products and to practice the licensed intellectual property.
- Management is of the view that the Group doesn't have control over STEM, exposure, or rights, to variable returns from its involvement with STEM. Management considers that the call option is not substantive and not favourable as of 31 December 2022 in terms of future benefits and the value attached to the option.
- The Group will continuously and on an annual basis monitor whether the call option is substantive or not. As such, it is possible that, in the future, management may have to conclude that the potential voting rights become substantive and that the potential voting rights together with the existing voting rights provide the Group control over STEM.
- Management is of the view that based on the nature of the pre-agreed decisions which require special consent listed in the shareholders' agreement, both the Group and Kane have joint control over STEM.
- It was agreed between both parties that STEM will benefit from predetermined mark-up on the products STEM produce, which will be distributed to both parties through dividends and that the Group doesn't have access to STEM assets or to incur liabilities on behalf of STEM. Accordingly, management is of the view that, based on the IFRS 11 – Joint Arrangement flow chart, the nature of the arrangement consists of a joint venture rather than joint operations.

Significant accounting estimates and assumptions

CASH-SETTLED AND EQUITY-SETTLED SHARE- BASED PAYMENT ARRANGEMENTS

The Group has entered into an arrangement whereby growth shares have been issued in a subsidiary with ties to employment, and which could be obligated to be bought back by the Group in certain instances. The Directors have determined that this share-based payment arrangement is partially cash-settled and partially equity-settled. Details of the arrangement and its valuation are provided in note 26.

4. Non-underlying items

	For the year ended 31 December	
	2022 £'000	2021 £'000
Amortisation and impairment of acquisition related intangibles		
Classified within research and development expenses	**667**	951
Classified within general and administrative expenses	**3,794**	4,580
Impairment losses	**895**	2,761
Total amortisation and impairment of acquisition-related intangibles	**5,356**	8,292
Restructuring costs	**282**	17
Acquisition and integration costs	**335**	188
Impairment on intangibles	**23**	–
Divestments and business disposals	**(146)**	(462)
COVID-19	**2**	11
Long-term incentive plan (see Note 26)	**220**	–
UK and Spain office relocation costs	**182**	111
Other non-underlying items	**263**	447
Total non-underlying items before taxes	**6,517**	8,604
Tax impact	**(910)**	(1,303)
Total non-underlying items after taxes	**5,607**	7,301

The following table shows the breakdown of non-underlying items before taxes by category for 2022 and 2021:

	For the year ended 31 December	
	2022 £'000	2021 £'000
Classified within research and development expenses	**667**	951
Classified within general and administrative expenses	**4,013**	4,580
Classified within net other operating (income)/expense	**919**	312
Impairment losses	**918**	2,761
Total non-underlying items before taxes	**6,517**	8,604

The 2022 £4,013k general and administrative expenses principally encompass amortisation and impairment of acquisition related intangibles of £3,794k plus the £220k long-term incentive plan charge.

Non-underlying items totalling £6,516k (2021: £8,604k) relating to profit before tax have been incurred in the year. These principally comprise:

- Amortisation and impairment of acquisition-related intangibles of £5,356k (2021: £8,292k). The current year charge primarily comprises amortisation in relation to the reverse acquisition of Ecuphar NV and previous acquisitions made by Ecuphar NV of £4,461k (2021: £5,531k) and a non-cash impairment charge of Research & Development assets (£895k; 2021: £ 2,761k) that formed part of the acquired development pipeline, the principal driver for which was manufacturing challenges that have significantly impacted the timing and costs to resume supply with appropriate commercial returns. The assets in question are now written down to nil. Impairment losses have been presented separately on the face of the consolidated income statement, however the entire amount of £918k would be attributable to net other operating expenses.
- Expenses relating to restructuring costs of £282k (2021: £17k) principally relate to the closure of our warehouse in Belgium and subsequent out-sourcing to a third-party logistics provider, together with costs associated with the reorganisation of our UK operations following the carve-out of Identicare in 2021.

- Acquisition and integration costs of £335k (2021: £188k) primarily relate to costs associated with manufacturing transfers and the cessation of production animals sales in Benelux.
- Costs associated with the relocation of our Spain and UK operations totalling £182k (2021: £111k) include one-off move costs and dilapidation provisions.

The non-underlying items are excluded for KPI purposes as shown in the section on Key Performance Indicators.

5. Segment information

The Pharmaceutical segment is active in the development and marketing of innovative pharmaceutical products that provide significant benefits to animal health.

The measurement principles used by the Group in preparing this segment reporting are also the basis for segment performance assessment. The Board of Directors of the Group acts as the Chief Operating Decision Maker. As a performance indicator, the Chief Operating Decision Maker controls performance by the Group's revenue, gross margin, Underlying EBITDA and EBITDA. EBITDA is defined by the Group as net profit plus finance expenses, less finance income, plus income taxes and deferred taxes, plus depreciation, amortisation and impairment and is an alternative performance measure. Underlying EBITDA equals EBITDA plus non-underlying items and is an alternative performance measure. EBITDA and underlying EBITDA are reconciled to statutory measures below.

The following table summarises the segment reporting from continuing operations for 2022 and 2021. As management's internal reporting structure is principally revenue and profit-based, the reporting information does not include assets and liabilities by segment and is as such not presented per segment.

	For the year ended 31 December	
	2022 £'000	2021 £'000
Revenues	**71,616**	74,024
Gross Profit	**40,659**	39,418
Gross Profit %	**57%**	53%
Segment underlying EBITDA	**13,131**	13,455
Segment underlying EBITDA %	**18%**	18%
Segment EBITDA	**11,993**	13,143
Segment EBITDA %	**17%**	18%

The underlying and segment EBITDA is reconciled with the consolidated net profit/(loss) for the year as follows:

	For the year ended 31 December	
	2022 £'000	2021 £'000
Underlying EBITDA	**13,131**	13,455
Non-recurring expenses (excluding amortisation and impairment)	**(1,138)**	(312)
EBITDA	**11,993**	13,143
Depreciation, amortisation and impairment	**(8,757)**	(11,154)
Operating profit	**3,236**	1,989
Finance costs	**(1,752)**	(2,613)
Finance income	**1,110**	1,757
Share of net loss of joint venture accounted for using the equity method	**(52)**	(188)
Income taxes	**(1,637)**	(1,371)
Deferred taxes	**1,060**	349
Profit/(loss) for the period	**1,965**	(77)

5. Segment information (CONTINUED)

Segment assets excluding deferred tax assets located in Belgium, Spain, Portugal, the United Kingdom and other geographies are as follows:

	As at 31 December	
	2022 £'000	2021 £'000
Belgium	**7,510**	8,834
Spain	**3,695**	2,811
Portugal	**4,234**	4,061
UK	**59,184**	62,157
Other	**6,260**	5,881
Non-current assets excluding deferred tax assets	**80,883**	83,744

Revenue by product category

	For the year ended 31 December	
	2022 £'000	2021 £'000
Companion animals	**50,217**	51,326
Production animals	**15,674**	16,980
Equine	**5,698**	5,637
Other	**27**	81
Total	**71,616**	74,024

Revenue by geographical area

	For the year ended 31 December	
	2022 £'000	2021 £'000
Belgium	**3,354**	4,023
The Netherlands	**1,627**	1,769
United Kingdom	**15,257**	15,471
Germany	**10,056**	10,373
Spain	**19,724**	21,035
Italy	**8,404**	8,885
Portugal	**4,215**	4,193
European Union – other	**7,199**	6,971
Asia	**494**	681
Middle East Africa	**17**	1
Other	**1,269**	622
Total	**71,616**	74,024

Revenue by category

	For the year ended 31 December	
	2022 £'000	2021 £'000
Product sales	**69,642**	72,651
Services sales	**1,974**	1,373
Total	**71,616**	74,024

Product revenue is recognised when the performance obligation is satisfied at a point in time. Service revenue is recognised by reference to the stage of completion. Services sales includes £407k (2021: £593k) of commission income recognised at a point in time.

6. Income and expenses

6.1. Cost of sales

Cost of sales includes the following expenses:

	For the year ended 31 December	
	2022 £'000	2021 £'000
Purchase of goods and services	29,780	33,016
Stock write off	462	154
Movement in stock provision	(349)	227
Payroll expenses	174	439
Other expenses	890	770
Total	**30,957**	34,606

6.2. Research and development expenses

Research and development expenses include the following:

	For the year ended 31 December	
	2022 £'000	2021 £'000
Amortisation and depreciation	1,239	1,681
Payroll expenses	1,403	1,361
Other R&D expenses	388	90
Total	**3,030**	3,132

6.3. Selling and marketing expenses

Selling and marketing expenses include the following:

	For the year ended 31 December	
	2022 £'000	2021 £'000
Transport costs of sold goods	1,023	823
Promotion costs	2,035	2,792
Payroll expenses	9,220	7,545
Amortisation and depreciation	1	2
Other	1,268	1,115
Total	**13,547**	12,277

6.4. General and administrative expenses

General and administrative expenses include the following:

	For the year ended 31 December	
	2022 £'000	2021 £'000
Amortisation and depreciation	6,561	6,705
Payroll expenses	4,904	4,430
Other	7,548	7,927
Total	**19,013**	19,062

The expenses in other mainly relate to fees paid for services, training and seminars, IT and software-related costs, and travel and representation.

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2022

6. Income and expenses (CONTINUED)

6.5. Net other operating expenses

The net other operating (income)/expenses can be detailed as follows:

`	For the year ended 31 December 2022 £'000	2021 £'000
Re-invoicing of costs	**(8)**	(53)
Non-cash movement in IFRS16 liability	**(6)**	(16)
Other operating income	**(243)**	(441)
Other operating expenses	**1,172**	707
Total	**915**	197

Other operating expenses of £1,172k (2021: £707k) principally relate to the non-underlying items, excluding amortisation and impairment of acquisition-related intangibles, disclosed in note 4.

Other operating income in 2022 and 2021 mainly relates to income on sale of several product divestments in connection with the cessation of the production animals range in Benelux.

6.6. Expenses by nature

	For the year ended 31 December 2022 £'000	2021 £'000
Other operating lease rentals / short-term leases	**946**	646
Employee expenses	**15,527**	13,336
Depreciation and amortisation	**7,803**	8,402
Transport costs sold goods	**1,023**	823
Promotion costs	**2,035**	2,643
Other operating expense – note 6.5	**915**	197
Impairment losses	**918**	2,761
Other expenses	**8,256**	8,621
Total expenses	**37,423**	37,429

6.7. Payroll expenses

The following table shows the breakdown of payroll expenses for 2022 and 2021:

	For the year ended 31 December 2022 £'000	2021 £'000
Wages and salaries	**13,450**	11,775
Social security costs	**2,002**	1,788
Other pension costs	**249**	212
Total	**15,701**	13,775
The monthly average number of employees during the year was as follows:		
Sales and administration	**219**	207
Distribution	**1**	4

The payroll expenses for the year are impacted by the share-based payments amounting to £204k (2021: £149k). For more information refer to note 26.

Director's remuneration is detailed in the Director's remuneration report in the Governance section.

6.8. Finance costs

Finance costs include the following elements:

	For the year ended 31 December	
	2022 **£'000**	2021 £'000
Interest expense	**444**	447
Foreign currency losses	**985**	1,912
Unwind of discount on other liabilities	**124**	85
Other finance costs	**199**	169
Total	**1,752**	2,613

6.9. Finance income

Finance income includes the following elements:

	For the year ended 31 December	
	2022 **£'000**	2021 £'000
Foreign currency exchange gains	**1,060**	1,754
Income from financial assets	**39**	1
Other finance income	**11**	2
Total	**1,110**	1,757

6.10. Income tax

CURRENT TAX LIABILITIES

The tax payable relates to the income taxes of £623k (2021: £471k).

INCOME TAX EXPENSE

The following table shows the breakdown of the tax expense for 2022 and 2021:

	For the year ended 31 December	
	2022 **£'000**	2021 £'000
Current tax charge	**(1,685)**	(1,371)
Tax adjustments in respect of previous years	**48**	–
Total current tax charge	**(1,637)**	(1,371)
Deferred tax – origination and reversal of temporary differences	**774**	458
Deferred tax – adjustments in respect of previous years	**286**	(109)
Total deferred tax credit	**1,060**	349
Total tax expense for the year	**(577)**	(1,022)

6. Income and expenses (CONTINUED)

The total tax expense can be reconciled to the accounting profit as follows:

	For the year ended 31 December 2022 £'000	2021 £'000
Profit before tax	**2,542**	945
Share of net loss of joint ventures	**52**	188
Profit before tax, excl. Share in net loss of joint venture	**2,594**	1,133
Tax at 19.00% (2021: 19.00%)	**(493)**	(215)
Effect of:		
Overseas tax rates	**(389)**	(386)
Non-deductible expenses	**(99)**	(180)
Adjustment to use of tax losses previously not recognised	**(24)**	76
Changes in statutory enacted tax rate	**93**	(273)
Tax adjustments in respect of previous year	**334**	(109)
Non-recognition of deferred tax on current year losses	**(21)**	(105)
Usage of formerly non-recognised deferred tax assets on timing differences	**15**	50
R&D relief	**53**	200
Other	**(46)**	(80)
Income tax expense as reported in the consolidated income statement	**(577)**	(1,022)

The tax credit of £910k (2021: £1,303k) shown within "non-underlying items" on the face of the consolidated income statement, which forms part of the overall tax charge of £577k (2021: £1,022k), relates to the items in note 4.

The tax rates used for the 2022 and 2021 reconciliation above are the corporate tax rates of 25.00% (Belgium), 19.00% (the Netherlands), 30.70% (Germany), 33.00% (France), 25.00% (Spain), 24.00% (Italy), 21.00% (Portugal) and 19.00% (the United Kingdom). These taxes are payable by corporate entities in the above-mentioned countries on taxable profits under tax law in that jurisdiction.

Deferred taxes at the balance sheet date have been measured using the UK enacted tax rate, being 25% from 1 April 2023.

DEFERRED TAX

(a) Recognised deferred tax assets and liabilities

	Assets		Liabilities		Total	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Goodwill	**–**	(125)	**(1,290)**	(923)	**(1,290)**	(1,048)
Intangible assets	**329**	243	**(2,722)**	(3,435)	**(2,393)**	(3,192)
Property, plant and equipment	**–**	(186)	**(707)**	(195)	**(707)**	(381)
Financial fixed assets	**1**	1	**–**	–	**1**	1
Inventory	**–**	(11)	**(54)**	(40)	**(54)**	(51)
Trade and other receivables/(payables)	**71**	94	**–**	59	**71**	153
Borrowings	**565**	182	**–**	223	**565**	405
Provisions	**4**	3	**–**	–	**4**	3
Accruals and deferred income	**32**	13	**–**	40	**32**	53
Tax losses carried forward	**2,565**	1,749	**–**	–	**2,565**	1,749
Total	**3,567**	1,963	**(4,773)**	(4,271)	**(1,206)**	(2,308)

(b) Movements during the year

Movement of deferred taxes during 2022:

	Balance as at 1 January 2022 £'000	Recognised in income £'000	Foreign exchange adjustments £'000	Balance as at 31 December 2022 £'000
Goodwill	(1,048)	(176)	(66)	**(1,290)**
Intangible assets	(3,192)	782	17	**(2,393)**
Property, plant and equipment	(381)	(296)	(30)	**(707)**
Financial fixed assets	1	–	–	**1**
Inventory	(51)	–	(3)	**(54)**
Trade and other receivables/(payables)	153	(62)	(20)	**71**
Accruals and deferred income	53	(23)	2	**32**
Borrowings	405	133	27	**565**
Provisions	3	–	1	**4**
Tax losses carry forward and other tax benefits	1,749	702	114	**2,565**
Net deferred tax	(2,308)	1,060	42	**(1,206)**

Movement of deferred taxes during 2021:

	Balance at 1 January 2021 £'000	Recognised in income £'000	Foreign exchange adjustments £'000	Balance at 31 December 2021 £'000
Goodwill	(935)	(174)	61	(1,048)
Intangible assets	(3,773)	600	(19)	(3,192)
Property, plant and equipment	(439)	34	24	(381)
Financial fixed assets	1	–	–	1
Inventory	(41)	(13)	3	(51)
Trade and other receivables/(payables)	166	(11)	(2)	153
Accruals and deferred income	104	(44)	(7)	53
Borrowings	404	27	(26)	405
Provisions	–	–	3	3
Tax losses carry forward and other tax benefits	1,929	(70)	(110)	1,749
Net deferred tax	(2,584)	349	(73)	(2,308)

TAX LOSSES

The Group has unused tax losses, tax credits and notional interest deduction available in an amount of £11,361k for 2022 (2021: £7,435k).

Deferred tax assets have been recognised on available tax losses carried forward for some legal entities, resulting in amounts recognised of £ 2,565k (2021: £ 1,749k). This was based on management's estimate that sufficient positive taxable profits will be generated in the near future for the related legal entities with fiscal losses. It is expected that £32k of the deferred tax asset will be recovered within the next 12 months and the remaining £2,533k of the deferred tax asset will be recovered after 12 months.

The non-recognised deferred tax assets of Ecuphar NV on temporary differences decreased by £15k in 2022 (2021: £50k).

7. Earnings per share

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all potential dilutive ordinary shares.

The following income and share data was used in the earnings per share computations:

Profit/(loss) for the period

	As at 31 December			
	2022 Underlying £'000	2021 Underlying £'000	**2022 Total £'000**	2021 Total £'000
Net profit/(loss) for the year	**7,572**	7,224	**1,965**	(77)
Net profit/loss attributable to ordinary equity holders of the parent adjusted for the effect of dilution	**7,572**	7,224	**1,965**	(77)

Average number of shares (basic and diluted)

	As at 31 December			
Number of shares	**2022 Underlying**	2021 Underlying	**2022 Total**	2021 Total
Weighted average number of ordinary shares for basic earnings per share	**60,175,407**	60,081,167	**60,175,407**	60,081,167
Dilutive potential ordinary share options	**629,087**	376,836	**629,087**	376,836
Weighted average number of ordinary shares adjusted for effect of dilution	**60,804,494**	60,458,003	**60,804,494**	60,458,003

Basic earnings/(loss) per share

	As at 31 December			
	2022 Underlying in pence	2021 Underlying in pence	**2022 Total in pence**	2021 Total in pence
From operations attributable to the ordinary equity holders of the company	**12.6**	12.0	**3.3**	(0.1)
Total basic earnings per share attributable to the ordinary equity holders of the company	**12.6**	12.0	**3.3**	(0.1)

Diluted earnings/(loss) per share

	As at 31 December			
	2022 Underlying in pence	2021 Underlying in pence	**2022 Total in pence**	2021 Total in pence
From operations attributable to the ordinary equity holders of the Company	**12.5**	12.0	**3.2**	(0.1)
Total diluted earnings per share attributable to the ordinary equity holders of the Company	**12.5**	12.0	**3.2**	(0.1)

8. Goodwill

On acquisition, goodwill acquired in a business combination is allocated to the cash-generating units which are expected to benefit from that business combination. This cash-generating unit corresponds to the nature of the business, being Pharmaceuticals. The goodwill has been allocated to the cash-generating unit ("CGU") as follows:

	As at 31 December	
	2022 £'000	2021 £'000
CGU: Pharmaceuticals	**50,853**	50,337
Total	**50,853**	50,337

The changes in the carrying value of the goodwill can be presented as follows for the years 2022 and 2021:

	Total £'000
As at 1 January 2021	50,988
Currency translation	(651)
As at 31 December 2021	50,337
As at 1 January 2022	**50,337**
Currency translation	516
As at 31 December 2022	**50,853**

Goodwill allocated to the Pharmaceuticals CGU includes goodwill recognised as a result of past business combinations of Esteve, Equipharma NV, Ecuphar BV, Cardon Pharmaceuticals NV and more significantly following the reverse acquisition of Animalcare Group plc in 2017 which gave rise to goodwill of £41,048k.

The discount rate and growth rate (in perpetuity) used for value-in-use calculations are as follows:

	2022	2021
Discount rate (pre-tax) %	**14.2**	11.8
Growth rate (in perpetuity) %	**2.0**	1.9

Cash flow forecasts are prepared using the current operating budget approved by the Directors, which covers a five-year period and an appropriate extrapolation of cash flows, using the long-term growth rate, beyond this. The cash flow forecasts assume revenue and profit growth in line with our strategic priorities. Further, we have assessed the potential impact of climate change, with reference to our principal risks and the environmental disclosures made in the Sustainability report and consider that the impact on the valuation of goodwill is limited.

The Group's impairment review is sensitive to change in assumptions used, most notably the discount rates and the perpetuity growth rates.

A 1.0% increase in discount rates would cause the value in use of the CGU to reduce by £15.5m but would not give rise to an impairment. A 1.0% reduction in perpetuity growth rates would cause the value in use of the CGU to reduce by £11.6m but would not give rise to an impairment.

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2022

9. Intangible assets

The changes in the carrying value of the intangible assets can be presented as follows for the years 2022 and 2021:

	Research & Development assets £'000	Patents, distribution rights and licenses £'000	Product portfolios and product development costs £'000	Capitalised software £'000	Assets under construction* £'000	As restated Total* £'000
Acquisition value/cost						
As at 1 January 2021	18,655	19,266	37,616	2,149	51	77,737
Additions	1,247	–	1,030	1,080	499	3,856
Disposals	(4,934)	(57)	(134)	(20)	(43)	(5,188)
Transfers	(2,195)	–	2,195	–	–	–
Currency translation	(327)	(961)	(1,140)	(119)	(13)	(2,560)
As at 31 December 2021 (restated*)	12,446	18,248	39,567	3,090	494	73,845
Additions	**719**	**–**	**603**	**1,218**	**–**	**2,540**
Disposals	**(982)**	**–**	**(90)**	**(55)**	**(4)**	**(1,131)**
Transfers	**375**	**–**	**–**	**–**	**(375)**	**–**
Currency translation	**241**	**760**	**978**	**146**	**12**	**2,137**
As at 31 December 2022	**12,799**	**19,008**	**41,058**	**4,399**	**127**	**77,391**
Amortisation						
As at 1 January 2021	(5,255)	(13,304)	(19,938)	(1,377)	–	(39,874)
Amortisation	(1,387)	(1,897)	(3,303)	(630)	–	(7,217)
Disposals	4,211	57	46	55	–	4,369
Impairments	(2,671)	–	(77)	(13)	–	(2,761)
Currency translation	147	770	855	79	–	1,851
As at 31 December 2021 (restated*)	(4,955)	(14,374)	(22,417)	(1,886)	–	(43,632)
Amortisation	**(1,239)**	**(1,325)**	**(3,233)**	**(888)**	**–**	**(6,685)**
Disposals	**676**	**–**	**89**	**61**	**–**	**826**
Impairments	**(868)**	**–**	**(32)**	**(18)**	**–**	**(918)**
Currency translation	**(151)**	**(693)**	**(753)**	**(102)**	**–**	**(1,699)**
As at 31 December 2022	**(6,537)**	**(16,392)**	**(26,346)**	**(2,833)**	**–**	**(52,108)**
Net carrying value						
As at 31 December 2022	**6,262**	**2,616**	**14,712**	**1,566**	**127**	**25,283**
As at 31 December 2021 (restated*)	7,491	3,874	17,150	1,204	494	30,213

* Restatement as described in note 29

Research & Development assets relate to acquired development projects as part of the Esteve business combination in 2015, the reverse acquisition of Animalcare Group plc in 2017 and external and internal R&D costs for which the capitalisation criteria are met. Patents, distribution rights and licenses include amounts paid for exclusive distribution rights as well as distribution rights acquired as part of the Esteve business combination in 2015 and the reverse acquisition of Animalcare Group plc in 2017.

Product portfolios and product development costs relate to amounts paid for acquired brands as well as external and internal product development costs capitalised on the development projects in the pipeline for which the capitalisation criteria are met.

The net book value of non-commercialised development projects is £1,513k (2021: £1,644k) split over Research & Development assets for £977k and Product Portfolios and product development costs for £328k. No amortisation was charged.

The capitalised software includes IT driven by accelerated CRM software investment and website and platform development relating to Identicare Ltd.

The total amortisation charge for 2022 is £6,685k (2021: £7,217k) which is included in lines research and development expenses, selling and marketing expenses and general and administrative expenses of the consolidated income statement. Included in the total amortisation charge is £4,461k (2021: £5,531k) relating to acquisition-related intangibles and £2,224k (2021: £1,686k) relating to other intangibles.

A total impairment charge of £918k (2021: £2,761k) was recorded during the financial year. Thereof £895k (2021: £2,761k) is related to a non-cash impairment charge of acquisition-related intangibles of Research & Development assets. Further details of this impairment are provided in note 4. In 2022, Animalcare Group plc invested in intangibles for an amount of £2,540k (2021 £3,357k).

On 24 March 2022, the Group entered into two early-stage agreements with Netherlands-based Orthros Medical, a company focused on the research and early development of VHH antibodies, also known as small single-chain antibody fragments. Under the terms of the deal, and during the period, Animalcare made upfront payments to Orthros Medical totalling €500k. These are included as intangible asset "product portfolios and product development costs". As the two licensed preclinical candidates progress, Orthros Medical may receive development, regulatory and commercial milestone payments up to a total value of €11 million, a significant proportion of which are linked to successful commercialisation. In addition, single digit royalties will be due on the net sales of the products. These payments are expected to be paid out of the Group's operating cash flow.

10. Property, plant and equipment

The changes in the carrying value of the property, plant and equipment can be presented as follows for 2022 and 2021:

	Equipment £'000	Office furniture and equipment £'000	Warehouse and office fittings £'000	Leasehold improvements £'000	As restated Total* £'000
Acquisition value/cost					
As at 1 January 2021	411	1,644	184	317	2,556
Additions	1	51	–	6	58
Disposals	(141)	(63)	(15)	–	(219)
Currency Translation	(17)	(79)	–	(21)	(117)
As at 31 December 2021 (restated*)	254	1,553	169	302	2,278
As at 1 January 2022	**254**	**1,553**	**169**	**302**	**2,278**
Additions	**99**	**166**	**142**	**–**	**407**
Disposals	**(100)**	**(97)**	**(169)**	**(32)**	**(398)**
Currency Translation	**15**	**65**	**–**	**15**	**95**
As at 31 December 2022	**268**	**1,687**	**142**	**285**	**2,382**
Depreciation					
As at 1 January 2021	(376)	(1,525)	(143)	(298)	(2,342)
Depreciation charge for the year	(19)	(75)	(19)	(6)	(119)
Disposals	130	62	13	–	205
Currency Translation	16	72	–	22	110
As at 31 December 2021 (restated*)	(249)	(1,466)	(149)	(282)	(2,146)
Depreciation charge for the year	**(11)**	**(59)**	**(21)**	**(4)**	**(95)**
Disposals	**99**	**94**	**165**	**32**	**390**
Currency Translation	**(10)**	**(59)**	**–**	**(14)**	**(83)**
As at 31 December 2022	**(171)**	**(1,490)**	**(5)**	**(268)**	**(1,934)**
Net book value					
As at 31 December 2022	**97**	**197**	**137**	**17**	**448**
As at 31 December 2021 (restated*)	5	87	20	20	132

* Restatement as described in note 29

10. Property, plant and equipment (CONTINUED)

The investment in property, plant and equipment in 2022 amounted to £407k (2021: £58k) and mainly related to the acquisitions of IT and office equipment.

The Group realised a net gain on disposal of property, plant and equipment of £390k in 2022 (2021: £205k). No impairment of property, plant and equipment was recorded in 2022.

Borrowing costs

No borrowing costs were capitalised during the year ended 31 December 2022 or 31 December 2021.

11. Investments in joint ventures

On 28 September 2020 the Group announced that it has entered into an agreement with Canada-based biotech company Kane Biotech Inc. under which the parties formed STEM Animal Health Inc. ("STEM"), a company dedicated to treating biofilm-related ailments in animals. The Group acquired, via its 100% subsidiary Ecuphar NV, 33.34% in STEM for a cash consideration of CA$3m, of which CA$1.5m was already paid in prior years, CA$0.5m during the financial year and CA$1.0m still payable over 20 months.

The Group has a call option, for a period until 28 September 2026, to acquire an additional 18% stake in STEM for CA$4 million. Based on the existing voting rights (33.34%) and other contractual arrangements, the Group does not have power over the investee. Further disclosure is provided in Note 3 Significant accounting judgements, estimates and assumptions. Accordingly, the investment in STEM is accounted for through the equity method in the consolidated financial statements.

Separately, we also announced that we had entered into a licensing agreement, under which we will invest a further CA$2m, consisting of an initial payment along with a series of potential payments linked to various milestones, for rights to commercialise products in global veterinary markets outside the Americas.

Both the remaining equity investment in STEM and the licensing fee are expected to be paid from existing cash resources.

In the prior year, the Group made its first license payment of CA$0.5m. The following payment is due in 2023, resulting in a short-term payment of CA$692k or £425k, and a long-term payable of CA$748k or £459k.

Further, for the capital contribution, the outstanding short-term liability is £292k (2021: £277k), shown in the balance sheet as other current liability. The outstanding long-term liability is £254k (2021: £502k), shown in the balance sheet as other non-current liability.

	Place of business/ country of	% of ownership interest				Carrying amount	
Name of entity	incorporation	**2022 %**	2021 %	Nature of relationship	Measurement method	**2022 £'000**	2021 £'000
STEM Animal Health Inc.	Canada	**33.34%**	33.34%	Joint Venture	Equity method	**1,305**	1,290

The tables below provide summarised financial information for the Joint Venture in STEM Animal Health Inc. which is material to the group. The information disclosed first reflects the amounts presented in the financial statements of the relevant joint venture followed by Animalcare's share of those amounts.

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Non-current assets	**321**	547
Current assets	**1,511**	945
Total assets	**1,832**	1,492
Current liabilities	**825**	525
Total liabilities	**825**	525
Net assets	**1,007**	967
The below table shows the Animalcare group share at 33%:		
Net assets	**336**	322
Goodwill	**561**	561
Fair value identified intangibles	**555**	554
Deferred tax liability	**(147)**	(147)
Investment value in joint venture	**1,305**	1,290

Summarised statement of comprehensive income:

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Sales	**1,581**	856
Operating expenses	**(1,651)**	(1,338)
Financial result, net	**65**	55
Net loss for the year	**(5)**	(427)
The below table shows the Animalcare group share at 33.34%:		
Group share in net loss for the year	**(2)**	(142)
Depreciation on fair value adjustments on intangible fixed assets (net of deferred tax)	**(50)**	(46)
Total Group share in net loss for the year	**(52)**	(188)
Other comprehensive income	**67**	21
Group share in total comprehensive income/ (expense)	**15**	(167)

11. Investments in joint ventures (CONTINUED)

Reconciliation of the aforementioned financial information with the net carrying amount of the investment of STEM Animal Health Inc. in the consolidated financial statements:

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
As at 1 January	**1,290**	1,457
Acquisition in joint venture	**–**	–
Group share of net loss for the year	**(52)**	(188)
Foreign currency translation differences	**67**	21
As at 31 December	**1,305**	1,290

12. Inventories

Inventories include the following:

	As at 31 December	
	2022 £'000	2021 £'000
Raw materials	**2,179**	1,249
Goods purchased for resale	**11,295**	9,079
Total inventories (at cost or net realisable value)	**13,474**	10,328

The amount of inventory recognised as an expense during 2022 amounts to £29,780k (2021: £33,016k). The inventory includes a provision for write-off of £354k (2021: £617k). Inventory write-downs during 2022 amounted to £462k (2021: £499k). These costs are classified as part of the costs of goods sold.

13. Trade receivables, other current assets and other non-current assets

Trade receivables include the following:

	As at 31 December	
	2022 £'000	2021 £'000
Trade receivables	**13,631**	7,212
Expected credit loss	**(63)**	(77)
Total	**13,568**	7,135

The Group applied the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables based on historical losses. Trade receivables are non-interest-bearing and are generally on payment terms of between 30 and 90 days.

As at 31 December 2022, trade receivables of an initial value of £63k (2021: £77k) were impaired and fully provided for. The table below shows the changes in the allowance of receivables.

	£'000
As at 1 January 2021	(84)
Additional impairments	(2)
Reversal impairment	3
Exchange difference	6
As at 31 December 2021	(77)
Additional impairments	–
Reversal impairment	19
Exchange difference	(5)
As at 31 December 2022	**(63)**

Other current assets include the following:

	As at 31 December	
	2022 **£'000**	2021 £'000
Other receivables	**688**	868
Deferred charges	**27**	332
Total	**715**	1,200

Other current assets amount to £715k (2021: £1,200k) at the end of the reporting year and mainly include reclaimable taxes.

Deferred charges mainly include charges to be carried forward totalling £27k (2021: £332k).

	As at 31 December	
	2022 **£'000**	2021 £'000
Other non-current assets	**–**	24

14. Cash and cash equivalents

Cash and cash equivalents include the following:

	As at 31 December	
	2022 **£'000**	2021 £'000
Cash at bank	**5,976**	5,633
Cash equivalents	**59**	–
Total	**6,035**	5,633

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. There were no restrictions on cash during 2022 and 2021.

15. Trade payables

	As at 31 December	
	2022 **£'000**	2021 £'000
Trade payables	**15,497**	10,021
Total	**15,497**	10,021

The Directors consider that the carrying amount of trade payables approximates to their fair value.

16. Borrowings

The loans and borrowings include the following:

			As at 31 December	
	Interest rate	**Maturity**	**2022** **£'000**	2021 £'000
Revolving credit facilities	Euribor +1.50%	March–25	**4,435**	5,462
Acquisition loan	Euribor +1.75%	March–25	**3,991**	3,781
Lease liabilities	See note 23		**3,011**	1,719
Total loans and borrowings			**11,437**	10,962
Of which				
Non-current			**10,585**	10,239
Current			**852**	723

16. Borrowings (CONTINUED)

Borrowing facilities

The Group has total facilities of €51.5m to 31 March 2025, provided by a syndicate of four banks, comprising a committed revolving credit facility (RCF) of €41.5m and a €10.0m acquisition line, the latter of which cannot be utilised to fund operations.

The loans have a variable, Euribor-based interest rate, increased with a margin of 1.50% or 1.75%. The revolving credit facilities and the acquisition financing have a bullet maturity in March 2025.

The Group manages its banking arrangements centrally through cross-currency cash pooling. Funds are swept daily from its various bank accounts into central bank accounts to optimise the Group's net interest payable position.

The facilities remain subject to the following covenants which are in operation at all times:

- Net debt to underlying EBITDA ratio of 3.5 times;
- Underlying EBITDA to interest ratio of minimum 4 times; and
- Solvency (total assets less goodwill/total equity less goodwill) greater than 25%.

Net of cash balances totalling £6.0m, £4.4m of the RCF was utilised at the year end, leaving headroom of £38.4m.

As at 31 December 2022 and throughout the financial year, all covenant requirements were met with significant headroom across all three measures.

Net debt reconciliation

	As at 31 December	
	2022 £'000	2021 £'000
Net debt		
Cash and cash equivalents	**6,035**	5,633
Borrowings	**(8,426)**	(9,244)
Lease liabilities	**(3,011)**	(1,719)
Total	**(5,402)**	(5,330)

	Liabilities from financing activities		**Other assets**	
	Borrowings £'000	**Leases £'000**	**Cash £'000**	**Total £'000**
Net debt as at 1 January 2020	(17,069)	(1,812)	5,265	(13,616)
Financing cash flows	6,952	1,077	96	8,125
New leases	–	(1,037)	–	(1,037)
Foreign exchange adjustments	1,266	105	272	1,643
Other charges	(1)	–	–	(1)
Interest expense	(392)	(53)	–	(445)
Net debt as at 31 December 2021	**(9,244)**	**(1,720)**	**5,633**	**(5,331)**
Financing cash flows	1,320	1,086	614	3,020
New leases	–	(2,142)	–	(2,142)
Foreign exchange adjustments	(148)	(145)	(212)	(506)
Interest expense	(354)	(90)	–	(444)
Net debt as at 31 December 2022	**(8,426)**	**(3,011)**	**6,035**	**(5,402)**

17. Provisions

Provisions consist of the following:

	As at 31 December	
	2022 £'000	2021 £'000
Service warranties	**106**	126
Onerous contract	**108**	128
Severance payments	**104**	80
Other	**22**	74
Total	**340**	408

Service warranties provision relate to claims in respect of products sold which are still under warranty at the end of the reporting period. These claims are expected to be settled in the next financial year. Onerous contract provision relates to one specific customer contract, operating to September 2023, where the costs of meeting the obligations under the contract exceed the economic benefits expected to be received. Severance payment provisions relate to legal obligations towards commercial agents in Italy.

	Service warranties £'000	**Onerous contract £'000**	**Severance payments £'000**	**Other £'000**	**Total £'000**
Carrying amount at start of the year	**126**	**128**	**80**	**74**	**408**
Charged/(Credited) to Profit and Loss					
– Additional provision	60	–	26	–	86
– Unused amounts reversed	(80)	–	(6)	(56)	(142)
Amounts used during the year	–	(20)	–	–	(20)
Exchange difference	–	–	4	4	8
Carrying amount at end of the year	**106**	**108**	**104**	**22**	**340**

Contingent liability relating to the sale of Medini NV

On 3 September 2018, Ecuphar NV sold the wholesale business Medini NV to Vetdis Holding NV (Vetdis) under a Share Purchase Agreement (SPA). In June 2019, Vetdis sent a letter to Ecuphar claiming that Ecuphar had breached the SPA. Ecuphar disputes the majority of the claim; however, Ecuphar considers it likely that part of the claim, amounting to €157,836 (£139,988), may be valid. Following various discussions and correspondence, during which the parties were unable to reach an agreement, Vetdis issued formal court papers on 29 May 2020. A full court hearing to consider the case took place in the Commercial Court in Bruges on 2 March 2021. The court did not decide on the merits of the claim, instead it appointed an expert auditor to examine the documents and advise the court on the claim. The court, however, ordered Vetdis to pay the current account debt plus interest at 8%, and on 4 May 2021, Vetdis made a payment of €432,762 (£383,824). The process involving the expert auditor is ongoing. Other than the €157,836 (£139,988), which may be valid, and is written off from the outstanding other receivables from Vetdis, no further provision in respect of this matter has been included in the financial statements.

18. Other non-current liabilities

Other non-current liabilities consist of the fair value of the long-term capital contribution in STEM that hasn't been paid yet (£254k including the discount unwinding effect) and the outstanding payable of the STEM licensing agreement (£459k). For more information refer to note 11. A liability with regards to Identicare share-based payment arrangement (£198k) is also included in the other non-current liabilities. For more information refer to note 26.

	As at 31 December	
	2022 £'000	2021 £'000
Non-current liabilities	**911**	1,157
Total	**911**	1,157

19. Accrued charges and contract liabilities

Accrued charges and contract liabilities consists of the following:

	As at 31 December	
	2022 £'000	2021 £'000
Accrued charges	**777**	923
Contract liabilities – due within one year	**512**	168
Other	**(13)**	(8)
Total due within one year	**1,276**	1,083
Contract liabilities – due after one year	**372**	675

Accrued charges of £777k (2021: £923k) mainly include Ecuphar Veterinaria (£406k), Ecuphar NV (£64k), Belphar (£235k) and UK (£70k) and are mostly related to payroll and accrued bank interest costs.

Contract liabilities are liabilities that arise from certain services sold by the Group's subsidiary Identicare Limited.

Historically, and in return for a single upfront payment, Identicare Limited committed to providing certain database, pet reunification and other support services to customers over the life of the pet. There is no contractual restriction on the amount of times the customer makes use of the services. At the commencement of the contract, it is not possible to determine how many times the customer will make use of the services, nor does historical evidence provide indications of any future pattern of use. As such, income is recognised evenly over the term of the contract, currently between eight and 14 years.

Throughout 2022, Identicare Limited also operated both monthly and annual subscription-based services to pet owners, with income recognised accordingly over the period of the subscription.

Movements in the Group's contract liabilities tables outstanding:

	As at 31 December	
	2022 £'000	2021 £'000
Balance at the beginning of the year	**843**	790
Contract liabilities to following years	**418**	170
Release of contract liabilities from previous years	**(377)**	(117)
Balance at the end of the year	**884**	843

The contract liabilities fall due as follows:

	As at 31 December	
	2022 **£'000**	2021 £'000
Within one year	**512**	168
After one year	**372**	675
Balance at the end of the year	**884**	843

20. Other current liabilities

Other current liabilities include the following:

	As at 31 December	
	2022 **£'000**	2021 £'000
Payroll-related liabilities	**1,715**	1,356
Indirect taxes payable	**1,552**	547
Other current liabilities	**760**	253
Total	**4,027**	2,156

The Group acquired a one-third stake in STEM Animal Health Inc. on 28 September 2020, for a cash consideration of CA$3m, of which CA$1.5m was already paid in prior years, CA$0.5m during the financial year and CA$1.0m still payable over 20 months.

Separately, we also announced that we had entered into a licensing agreement, under which we will invest a further CA$2m, consisting of an initial payment along with a series of potential payments linked to various milestones, for rights to commercialise products in global veterinary markets outside the Americas.

Both the remaining equity investment in STEM and the licensing fee are expected to be paid from existing cash resources.

In the prior year, the Group made its first license payment of CA$0.5m. The following payment is due in 2023, resulting in a short-term payment of £425k. Further, for the capital contribution, the outstanding short-term liability is £292k including the discount unwinding effect (2021: £277k), shown in the balance sheet as other current liability.

Indirect taxes payable increased by £1,005k mainly due to the increase in outstanding VAT payable of the UK entities.

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2022

21. Fair value

Financial assets

The carrying value and fair value of the financial assets as at 31 December 2022 and 2021 are presented as follows:

	Carrying value		Fair value	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Financial assets measured at amortised cost				
Trade and other receivables (current)	**13,568**	7,135	**13,568**	7,135
Trade and other receivables (non-current)	**–**	24	**–**	24
Other financial assets (non-current)	**70**	90	**70**	90
Other current assets	**715**	1,199	**715**	1,199
Cash and cash equivalents	**6,035**	5,633	**6,035**	5,633
Total financial assets measured at amortised cost	**20,388**	14,081	**20,388**	14,081

The fair value of the financial assets has been determined on the basis of the following methods and assumptions:

- The carrying value of the cash and cash equivalents and the current receivables approximate their fair value due to their short-term character.
- Trade and other receivables are being evaluated on the basis of their credit risk and interest rate. Their fair value is not different from their carrying value on 31 December 2022 and 2021.

Call option to acquire an additional 18% share in joint venture STEM Animal Health Inc.

- The Group has a call option to acquire an additional 18% stake in its joint venture STEM Animal Health Inc. exercisable for a period of six years until September 28 2026. The call option is valued at fair value through Profit and Loss and is remeasured every year. As at 31 December 2022 the call option has a carrying value of £nil as it is has been assessed as not substantive and not favourable when considering the future forecasts of STEM Animal Health Inc. and therefore the value attached to the option. The call option is considered at level 3 in the fair value hierarchy. Further disclosure is provided in Note 3 Significant accounting judgements, estimates and assumptions.

Financial liabilities

The carrying value and fair value of the financial liabilities as at 31 December 2022 and 2021 are presented as follows:

	Carrying value		Fair value	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Financial liabilities measured at amortised cost				
Borrowings	**8,426**	9,244	**8,426**	9,244
Lease liabilities	**3,011**	1,719	**3,011**	1,719
Trade payables	**15,497**	10,021	**15,497**	10,021
Other non-current liabilities	**911**	1,157	**911**	1,157
Other current liabilities	**6,297**	4,385	**6,297**	4,385
Total financial liabilities measured at amortised cost	**34,142**	26,526	**34,142**	26,526
Total non-current	**11,496**	11,396	**11,496**	11,396
Total current	**22,646**	15,130	**22,646**	15,130

The fair value of the financial liabilities has been determined on the basis of the following methods and assumptions:

- The carrying value of trade payables and other liabilities approximates their fair value due to the short-term character of these instruments.
- Loans and borrowings are evaluated based on their interest rates and maturity date. Most interest-bearing debts have floating interest rates and their fair value approximates to their amortised cost value.

Fair value hierarchy

The fair value hierarchy is described in note 3.

22. Share capital

	As at 31 December	
Number of shares	**2022**	2021
Allotted, called up and fully paid ordinary shares of 20p each	**60,092,161**	60,092,161

	As at 31 December	
	2022 £'000	2021 £'000
Allotted, called up and fully paid ordinary shares of 20p each	**12,019**	12,019

The Company does not have a limited amount of authorised share capital.

The following share transactions have taken place during the year ended 31 December 2022:

	As at 31 December 2022	
	Number of shares	**£'000**
At 1 January 2022	60,092,161	12,019
At 31 December 2022	**60,092,161**	**12,019**

Dividends

	As at 31 December	
	2022 £'000	2021 £'000
Ordinary final dividend as at 31 December 2020 of 2.0p per share	**–**	1,201
Ordinary interim dividend paid as at 31 December 2021 of 2.0p per share	**–**	1,202
Ordinary final dividend as at 31 December 2021 of 2.4p per share	**1,442**	–
Ordinary interim dividend paid as at 31 December 2022 of 2.0p per share	**1,202**	–
	2,644	2,403

An interim dividend of 2.0 pence per share was paid in November 2022.

The Board is proposing a final dividend of 2.4 pence per share (2021: 2.4 pence per share). Subject to shareholder approval at the Annual General Meeting to be held on 13 June 2023, the final dividend will be paid on 14 July 2023 to shareholders whose names are on the Register of Members at close of business on 16 June 2023. The ordinary shares will become ex-dividend on 15 June 2023.

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2022

23. IFRS 16 Leases

The balance sheet shows the following amounts relating to leases as at 31 December 2022:

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Buildings	**1,639**	579
Vehicles	**1,257**	1,079
Other	**28**	–
Total right-of-use assets	**2,924**	1,658
Current lease liabilities	**852**	723
Non-current lease liabilities	**2,159**	996
Total lease liabilities	**3,011**	1,719

Below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	Land and buildings £'000	**Vehicles £'000**	**Other £'000**	**Total £'000**
Acquisition value/cost				
As at 1 January 2021	1,570	2,029	84	3,683
Additions	336	881	–	1,217
Disposals	(286)	(425)	(63)	(774)
Transfers	3	–	(3)	–
Currency Translation	(84)	(134)	(2)	(220)
Contract modifications	(12)	(61)	–	(73)
As at 31 December 2021	1,527	2,290	16	3,833
Additions	**1,343**	**678**	**30**	**2,051**
Disposals	**(855)**	**(415)**	**(14)**	**(1,284)**
Currency Translation	**104**	**128**	**1**	**233**
Contract modifications	**(5)**	**75**	**–**	**70**
As at 31 December 2022	**2,114**	**2,756**	**33**	**4,903**
Depreciation				
As at 1 January 2021	(739)	(1,071)	(83)	(1,893)
Depreciation charge for the year	(428)	(634)	(4)	(1,066)
Disposals	173	393	63	629
Transfers	(6)	–	6	–
Contract modifications	9	31	–	40
Currency translation	43	70	2	115
As at 31 December 2021	(948)	(1,211)	(16)	(2,175)
Depreciation charge for the year	**(358)**	**(662)**	**(3)**	**(1,023)**
Disposals	**855**	**415**	**14**	**1,284**
Contract modifications	**–**	**27**	**–**	**27**
Currency translation	**(24)**	**(68)**	**–**	**(92)**
As at 31 December 2022	**(475)**	**(1,499)**	**(5)**	**(1,979)**
Net book value				
At 31 December 2022	**1,639**	**1,257**	**28**	**2,924**

Below are the values for the movements in lease liability during the year:

	Lease Liability £'000
As at 1 January 2022	1,719
Additions	2,066
Disposals	(6)
Interest expense	90
Payments	(1,086)
Modifications	82
Currency translation adjustment	146
As at 31 December 2022	**3,011**

The following amounts are recognised in the income statement:

	For the year ended 31 December 2022 £'000
Depreciation expense of right-of-use assets	**(1,023)**
Interest expense on lease liabilities	**(90)**
Gain on disposal of IFRS 16 assets	**6**
Expense relating to short-term leases and low-value assets	**(108)**
Total amount recognised in the income statement	**(1,215)**

Cash-flows relating to leases are presented as follows:

- Cash payments for the principal portion of the lease liabilities as cash flows from financing activities;
- Cash payments for the interest portion consistent with presentation of interest payments chosen by the Group; and
- Short-term lease payments, payments for leases of low-value assets and variable lease payments that are not included in the measurement of the lease liabilities as cash flows from operating activities.

24. Risks

In the exercise of its business activity, the Group is exposed to credit, liquidity and market risks.

Credit risk

As at 31 December 2022 the Group's maximum exposure to credit risk is £13,568k, which is the amount of the trade receivables in the consolidated financial statements (2021: £7,135k).

To control this risk, the Group has set up a strict credit collection process. Historically, no major bad debts have been recorded. The Group has no individual customers who represent a significant part of the consolidated turnover, nor of the trade receivables at year-end.

The following is an ageing schedule of trade receivables:

	Total £'000	Non-due £'000	< 30 days £'000	31–60 days £'000	61–90 days £'000	91–180 days £'000	> 181 days £'000	Expected loss rate
31 December 2022	**13,568**	**12,989**	**681**	**32**	**(70)**	**16**	**(80)**	**0.5%**
Receivables	**13,631**	**12,989**	**681**	**32**	**(70)**	**16**	**(17)**	
Expected credit loss	**(63)**	**–**	**–**	**–**	**–**	**–**	**(63)**	
31 December 2021	7,135	6,725	429	23	13	(57)	2	1.0%
Receivables	7,208	6,725	429	23	13	(57)	75	
Expected credit loss	(73)	–	–	–	–	–	(73)	

24. Risks (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Company may not be able to meet its financial obligations as they fall due. The Group expects to meet its obligations related to the financing agreements through operating cash flows. Additionally, the Group ensures there is sufficient headroom on the existing credit lines to have an additional working capital buffer. As at 31 December 2022, the Group had the following sources of liquidity available:

- Cash and cash equivalents: £6,035k
- Undrawn credit facilities with several banks: £32,373k
- Undrawn acquisition financing: £4,878k

The table below provides an analysis of the maturity dates of the financial liabilities:

	< 1 year £'000	1 to 3 years £'000	4–5 years £'000	> 5 years £'000	Total £'000
At 31 December 2022					
Borrowings	**–**	**(8,426)**	**–**	**–**	**(8,426)**
Lease liabilities	**(852)**	**(1,553)**	**(394)**	**(439)**	**(3,238)**
Trade payables	**(15,497)**	**–**	**–**	**–**	**(15,497)**
Other current liabilities	**(4,027)**	**–**	**–**	**–**	**(4,027)**
Total	**(20,376)**	**(9,979)**	**(394)**	**(439)**	**(31,188)**

	< 1 year £'000	1 to 3 years £'000	4–5 years £'000	> 5 years £'000	Total £'000
At 31 December 2021					
Borrowings	–	(9,243)	–	–	(9,243)
Lease liabilities	(723)	(1,451)	(301)	(490)	(2,965)
Trade payables	(10,021)	–	–	–	(10,021)
Other current liabilities	(2,156)	–	–	–	(2,156)
Total	(12,900)	(10,694)	(301)	(490)	(24,385)

The amounts disclosed in the table above are the contractual undiscounted cash flows. The lease liabilities are translated at closing rate. Balances due within one year equal their carrying balances as the impact of discounting is not significant.

The Group's indebtedness and its restrictions and covenants agreed upon in the financing agreements may adversely affect the Group's liquidity position. Any breach of covenants can lead to loans being immediately due and payable.

The Company has an international cash pool with different banks to limit excess cash. The Company closely monitors cash balances within the Group and uses short-term withdrawals on the credit lines to minimise the cash balances.

Foreign exchange risk

The Group undertakes transactions denominated in foreign currencies which give rise to the risks associated with currency exchange rate fluctuations. Exposures are managed by a combination of matching foreign currency income and expenditure, maintaining foreign currency deposits and the use of forward contracts. The carrying values of the Group's foreign currency assets and liabilities, including intercompany balances, at the reporting date were:

	As at 31 December			
	Assets 2022 £'000	Assets 2021 £'000	**Liabilities 2022 £'000**	Liabilities 2021 £'000
EUR/GBP	**26,471**	18,911	**38,335**	27,589
GBP/EUR	**18,494**	16,322	**29,020**	18,361
EUR/USD	**(108)**	–	**297**	101
GBP/USD	**(14)**	–	**138**	117
EUR/HUF	**–**	–	**4**	–
EUR/CAD	**–**	–	**1,533**	1,545
EUR/SEK	**7**	6	**–**	–

The cumulative effect of the foreign currency translation effects is reported under other comprehensive income in the statement of financial position and amounts to £2,908k (2021: £2,311k).

At the end of the reporting year, the Group is mainly exposed to the EUR, the USD and the CAD. The following table details the effect of a 10.00% increase and decrease in the exchange rate of these currencies against the functional currencies sterling and EUR when applied to outstanding monetary items denominated in foreign currency as at 31 December 2022. A positive number indicates that an increase in profit would arise from a 10.00% change in value of sterling or EUR against these currencies; a negative number indicates that a decrease would arise.

	Strengthening £'000	**Weakening £'000**
EUR/GBP	1,186	(1,186)
GBP/EUR	1,053	(1,053)
EUR/USD	41	(41)
GBP/USD	15	(15)
EUR/CAD	153	(153)

Interest rate risk

The maturity dates and interest rates of the financial debts and liabilities are detailed in note 16. The exposure to interest rate risks is mainly related to existing borrowing facilities. The current loans of credit institutions have variable interest rates. There are no significant differences between the nominal interest rates as listed in note 16 and the effective interest rates of the loans.

If the interest rates would have been 100 bp higher/lower, the financial result would have been £78k lower/higher in 2022 and £108k lower/higher in 2021.

Capital management

The primary objective of the Group's shareholders' capital management strategy is to ensure it maintains healthy capital ratios to support its business and maximise shareholder value. Additionally, minimum solvency ratios are agreed upon in the financing agreements. Capital is defined as the Group shareholders' equity which amounts to £79,172k as at 31 December 2022 (2021: £78,799k).

The Group consistently reviews its capital structure and makes adjustments in light of changing economic conditions and performances of the Group. The Group made no changes to its capital management objectives, policies or processes during the years ended 31 December 2022 and 2021.

25. Remuneration paid to the Company's auditors

	For the year ended 31 December 2022 £'000	2021 £'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	**120**	110
The audit of the Company's subsidiaries pursuant to legislation	**227**	156
Total audit fees	**347**	266
Other services	**8**	2
Total non-audit fees	**8**	2
Total auditors' remuneration	**355**	268

26. Share-based payments

The Group operates a number of equity-settled share-based payment programmes that allow employees to acquire shares in the Group. The Group also operates Long-Term Incentive Plans for certain members of the Senior Executive Team and other members of the Leadership Team. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of such equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions (with a corresponding movement in equity).

The fair value of the options issued under the Long-Term Incentive Plan have been determined using both the Black–Scholes and Monte Carlo simulation models, in conjunction with a third-party valuation specialist.

Long-Term Incentive Plan ("LTIP")

The Group has made a number of awards pursuant to the Long-Term Incentive Plan as follows:

	2022 LTIP option	2021 LTIP option	2020 LTIP option	2019 LTIP option
Outstanding at 1 January 2022	–	264,981	360,565	364,278
Granted during the year	302,037	–	–	–
Vested during the year	–	–	–	(145,382)
Lapsed during the year	–	(9,231)	(17,978)	(218,896)
Outstanding at 31 December 2022	302,037	255,750	342,587	–
Exercisable at 31 December 2022	**–**	**–**	**–**	**145,382**

The options outstanding and exercisable at the year-end have a weighted average remaining contractual life of 8.34 years.

The options granted in 2022 and 2021 will vest subject to the following performance conditions based on EPS being met:

Earnings Per Share growth	Extent to which EPS tranche will vest
Less than 3%	0%
3%	25%
10%	100%
Between 3% and 10%	Between 25% and 100% on a straight-line basis

The 2020 and 2019 options were subject to the following performance conditions based on EPS being met:

Earnings Per Share growth	Extent to which EPS tranche will vest
Less than 3%	0%
3%	25%
8%	100%
Between 3% and 8%	Between 25% and 100% on a straight-line basis

All options granted are subject to the same TSR performance criteria as per the table below:

Rank of the Company's TSR compared to the Comparator Group	Extent to which the TSR tranche will vest
Upper quartile or above	100%
Between median and upper quartile	Pro rata between 25% and 100% on a ranking basis
Median	25%
Below median	0%

2022 LTIP Options

On 28 April 2022, the Board approved the grant of nil-cost options under the LTIP over a total of 302,037 ordinary shares with a nominal value of 20.0 pence per share which were awarded to the Company's Executive Directors and certain members of the Senior Executive Team and Leadership Team. The LTIP awards will vest on 1 July 2025 subject to the performance criteria being met over the three-year financial period ending 30 June 2025. On vesting, awards can be exercised until 28 April 2032, being the tenth anniversary of the date of grant.

50% of the option award will be subject to the EPS performance condition and the remaining 50% will be subject to the TSR performance condition. Accordingly, if one of the performance conditions is met but the other is not, the Option award will vest in part.

The fair value of the options issued under the LTIP have been determined using both the Black–Scholes and Monte Carlo simulation models, in conjunction with a third-party valuation specialist.

Inputs into the option pricing models were as follows:

Weighted average share price	£3.23
Weighted average exercise price	£Nil
Expected volatility	30.1%
Expected life	3.2 years
Expected dividend yield	1.24%
Fair value per option – EPS tranche	£3.10
Fair value per option – TSR tranche	£2.57
Risk-free rate	1.58%

2021 LTIP Options

On 5 November 2021, nil-cost options over a total of 264,981 ordinary shares with a nominal value of 20p per share were awarded to certain members of the Senior Executive Team and Group Leadership Team. During the year 9,231 of the options lapsed due to cessation of employment, leaving 255,750 options outstanding.

The awards will normally vest three years after the date of grant subject to the performance criteria being met over the three-year financial period ending 31 December 2024. On vesting, awards can be exercised until 5 November 2031, being the tenth anniversary of the date of grant.

Fifty per cent of the option award will be subject to the EPS performance condition and the remaining 50% will be subject to the TSR performance condition. Accordingly, if one of the performance conditions is met but the other is not, the Option award will vest in part.

The fair value of the options issued under the LTIP was determined using both the Black–Scholes and Monte Carlo simulation models, in conjunction with a third-party valuation specialist.

26. Share-based payments (CONTINUED)

Inputs into the option pricing models were as follows:

Weighted average share price	£3.62
Weighted average exercise price	£Nil
Expected volatility	32.0%
Expected life	3.2 years
Expected dividend yield	1.10%
Fair value per option – EPS tranche	£3.50
Fair value per option – TSR tranche	£2.56
Risk-free rate	0.39%

2020 LTIP Options

On 17 November 2020, nil-cost options over a total of 377,120 ordinary shares with a nominal value of 20p per share were awarded to certain members of the Senior Executive Team and Group Leadership Team. During 2021, 16,555 of the options lapsed due to cessation of employment. During 2022, a further 17,978 options lapsed, leaving 342,587 options outstanding.

The awards will normally vest three years after the date of grant subject to the performance criteria being met over the three-year financial period ending 31 December 2023. On vesting, awards can be exercised until 17 November 2030, being the tenth anniversary of the date of grant.

Fifty per cent of the option award will be subject to the EPS performance condition and the remaining 50% will be subject to the TSR performance condition. Accordingly, if one of the performance conditions is met but the other is not, the Option award will vest in part.

The fair value of the options issued under the LTIP was determined using both the Black–Scholes and Monte Carlo simulation models, in conjunction with a third-party valuation specialist.

Inputs into the option pricing models were as follows:

Weighted average share price	£1.72
Weighted average exercise price	£Nil
Expected volatility	29.0%
Expected life	3.1 years
Expected dividend yield	2.30%
Fair value per option – EPS tranche	£1.60
Fair value per option – TSR tranche	£1.25
Risk-free rate	0.50%

2019 LTIP Options

On 6 June 2019, nil-cost options over a total of 425,279 ordinary shares with a nominal value of 20p per share were awarded to certain members of the Senior Executive Team and Group Leadership Team. On 29 June 2020, a further grant of 14,076 ordinary shares was made to a member of the Group Leadership Team pursuant to the same performance and vesting criteria as the 2019 LTIP options. During 2020 and 2021, 56,488 and 18,589 options lapsed respectively due to cessation of employment, leaving 364,278 options outstanding as at 1 January 2022.

On 23 March 2022, 20,187 options lapsed due to cessation of employment. On 6 June 2022, 145,382 options granted on 6 June 2019 vested, with the remaining 198,709 options lapsed. These vested options have yet to be exercised; the participants have 6.4 years in which to exercise these options.

Details of the performance targets set and actual achievement against them in respect of the 2019 LTIP awards vesting, based on three-year performance to 31 December 2021, are set out in the table below:

Performance measure	Weighting	Performance period end	Threshold (25% vesting)	Maximum (100% vesting)	Actual	% vesting for this part of the award
Underlying EPS	50%	31 December 2021	12.8p	14.7p	12.0p	0%
TSR	50%	31 December 2021	Median	Upper quartile	Between median and upper quartile	83.0%

Identicare share-based payment arrangement

During the year, the Group entered into a share-based payments arrangement in respect of growth shares issued in its subsidiary, Identicare Limited ("Identicare"). The ownership of the shares requires ongoing employment and carries value to the holder on either the sale of Identicare, or after five years the holder can obligate the Group to repurchase the shares at market value via a put option. The Group can also obligate the holder to sell the shares to the Group at market value via a call option. The shares carry preferential rights to return upon the sale of Identicare with an increasing ratchet depending on the value of Identicare.

The exit terms on the shares qualify for value at 15% of proceeds if the equity value on sale or market value is less than £20m, 17% in the range £20m–£40m, and 20% above £40m. The shares were acquired on the arrangement's inception date of 1 January 2022 for unrestricted market value as determined at that date. The shares carry no voting rights nor rights to distributions from Identicare. The arrangement carries a cash repurchase requirement by the Group at the acquisition cost within five years from the inception of the agreement should the employee cease to be employed. This represents an event outside of the Group's control for which a future payment may need to be made, and therefore a liability of £33k is recognised within non-current liabilities.

26. Share-based payments (CONTINUED)

Given the terms applied to the shares, the Group has accounted for these as equivalent to redeemable shares, and as a result of the requirement for ongoing employment have applied the principles of IFRS 2 'Share-based payments' to the arrangement. The arrangement stipulates that a minimum of 50% of the shares are to be purchased in cash upon redemption, with the remaining 50% having choice of settlement, at the discretion of the Group, to either issue shares in the Group or purchase with further cash. In line with IFRS 2, 50% of the arrangement has therefore been accounted for as a cash-settled share-based payment arrangement, reflecting the Group's potential obligation to repurchase the shares in the event that no exit occurs, with the other 50% of the arrangement being treated as an equity-settled share-based payment due to there being no present obligation to settle in cash.

FAIR VALUE – CASH SETTLED PORTION

As at 31 December 2022 the arrangement has been valued using a Monte Carlo simulation, reflecting the ratchet nature of potential exit outcomes. The following inputs have been used to determine the fair value of the arrangement:

	At 31.12.22
Starting value of Identicare	£4.1m
Expected volatility	38.91%
Risk-free rate	3.60%
Expected dividend yields	0.00%
Expected remaining life	4 years

The resulting fair value of the scheme is £1,646k as at the year end, and this represents the total expected liquidity risk to the Group as at the year end. As the arrangement has only been in place for one year of its expected five-year life, the value as at the year end reflects this proportion.

The fair value of the arrangement, based on 50% being cash-settled, is £165k, being a liability held at fair value through profit and loss. The liability is included in the Consolidated Statement of Financial Position under other non-current liabilities however is carried currently at £165k plus the original £33k paid for the shares totalling £198k. The charge to profit and loss is included as a non-underlying item in the Consolidated Income Statement, and disclosed separately in note 4, to reflect the potential volatility arising from movements in the value of this arrangement. No non-market conditions have been included in the calculation of the charge to profit and loss.

FAIR VALUE – EQUITY SETTLED PORTION

The fair value of the equity-settled portion of the arrangement (50%) was £547k, determined at the date of issue of the shares using a Monte Carlo simulation, in conjunction with a third-party valuation specialist, taking into account the exit terms noted earlier.

The following inputs have been used to determine the fair value:

Valuation date	1 January 2022
Starting enterprise value	£6.9m
Closing net debt	£3.3m
Expected volatility	32.75%
Risk-free rate	0.72%
Expected dividend yield	0.00%
Expected life	3 years

The Group recognised a total charge in respect of share-based payments, including £220k non-underlying items, of £542k (2021: £249k).

27. Related party transactions

This disclosure provides an overview of all transactions with related parties. Interests in subsidiaries are disclosed in note 28.

Transactions between the Company and its subsidiaries, which are related parties, are eliminated in the consolidated financial statements and no information is provided thereon in this section. The Group carries an investment in a joint venture (STEM Animal Health Inc.). The Group's investment in its joint venture is accounted for using the equity method.

Transactions with investments in joint venture is described in note 11.

Remuneration of the Executive Directors, who are the key management personnel of the Group, is included in the Directors' Remuneration Report, and further disclosed below:

	For the year ended 31 December	
	2022 £'000	2021 £'000
Short term employment benefits	**672**	887
Post employment benefits	**22**	23
Share-based payments	**204**	235
Total remuneration	**898**	1,145

Short term employment benefits comprise £566k salaries (2021: £515k), £nil annual bonus (2021: £237k), £29k of benefits (2021: £26k) and £77k of employer social security contributions (2021: £109k).

28. Overview of consolidated entities

Name	Country of incorporation	Registered address	% equity interest 2022	2021	Consolidation method
Ecuphar NV	Belgium	Legeweg 157i, 8020 Oostkamp	**100%**	100%	Fully consolidated
Orthopaedics.be NV	Belgium	Legeweg 157i, 8020 Oostkamp	**100%**	100%	Fully consolidated*
Ecuphar BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	**100%**	100%	Fully consolidated
Ecuphar Veterinary Products BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	**100%**	100%	Fully consolidated
Ornis SA	France	Rue de Roubaix 33, 59200 Tourcoing	**100%**	100%	Fully consolidated
Ecuphar GmbH	Germany	Brandteichstraße 20, 17489 Greifswald	**100%**	100%	Fully consolidated
Euracon Pharma Consulting und Trading GmbH	Germany	Max-Planck Str. 11, 85716 Unterschleißheim	**100%**	100%	Fully consolidated
Ecuphar Veterinaria SA	Spain	C/ Cerdanya, 10-12, pl 6. 08173 Sant Cugat del Vallés Barcelona	**100%**	100%	Fully consolidated
Ecuphar Italia	Italy	Viale Francesco Restelli, 3/7, piano 1, 20124 Milano	**100%**	100%	Fully consolidated
Belphar IDA	Portugal	Sintra Business Park, Edifício 1, Escritório 2K 2710-089 Sintra	**100%**	100%	Fully consolidated
Animalcare Group plc	United Kingdom	Moorside, Monks Cross, York, YO32 9LB	**100%**	100%	Fully consolidated
Animalcare Ltd	United Kingdom	Moorside, Monks Cross, York, YO32 9LB	**100%**	100%	Fully consolidated
Identicare Ltd.	United Kingdom	Moorside, Monks Cross, York, YO32 9LB	**100%**	100%	Fully consolidated
STEM Animal Health Inc.	Canada	Innovation Drive Winnipeg 162-196, Manitoba, R3T 2N2	**33%**	33%	Equity method

* As per 23 December 2022, the extraordinary shareholders meeting of Orthopaedics.be NV decided upon the dissolution and liquidation of the company.

29. Restatement of comparative figures

Intangible Assets (note 9) and Property, Plant and Equipment (note 10) have been restated to reclassify 'Assets under construction' that were previously presented as Property, Plant and Equipment as Intangible Assets as they related to research and development. The impact on the net book value for the year ended 31 December 2021 and 1 January 2022 is as follows:

	As at 31 December 2021 £'000
Previously stated	
Intangible assets	29,719
Property, plant and equipment	626
Adjusted	
Intangible assets	494
Property, plant and equipment	(494)
Restated	
Intangible assets	30,213
Property, plant and equipment	132

The cash flow statement has been restated to reflect the updated movements in Purchase of property, plant and equipment and Purchase of intangible assets, as follows:

	As at 31 December 2021 £'000
Previously stated	
Purchase of property, plant and equipment	(557)
Purchase of intangible assets	(2,658)
Adjusted	
Purchase of property, plant and equipment	499
Purchase of intangible assets	(499)
Restated	
Purchase of property, plant and equipment	(58)
Purchase of intangible assets	(3,157)

Company Statement of Financial Position

AS AT 31 DECEMBER 2022

	Note	As at 31 December 2022 £'000	2021 £'000
Non-current assets			
Right-of-use-assets	10	**44**	–
Investments in subsidiary companies	6	**147,917**	147,743
Deferred tax asset	11	**662**	44
		148,623	147,787
Current assets			
Trade and other receivables	7	**4,376**	8,502
Cash and cash equivalents	8	**24**	6
		4,400	8,508
Total assets		**153,023**	156,295
Current liabilities			
Lease liabilities	10	**(12)**	–
Trade and other payables	9	**(456)**	(2,869)
		(468)	(2,869)
Net current assets		**3,931**	5,639
Non-current liabilities			
Lease liabilities	10	**(32)**	–
		(32)	–
Total liabilities		**(500)**	(2,869)
Net assets		**152,523**	153,426
Capital and reserves			
Called-up share capital	12	**12,019**	12,019
Share premium account		**132,798**	132,798
Retained earnings		**7,706**	8,609
Total shareholders' funds		**152,523**	153,426

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present a separate Profit and Loss account in these separate financial statements. The profit dealt with in the financial statements of the Company was £1,363k (2021: £6,574k profit).

The financial statements of Animalcare Group plc, registered number 01058015, were approved by the Board of Directors and authorised for issue on 15 May 2023. They were signed on their behalf by:

JENNIFER WINTER
Chief Executive Officer

CHRIS BREWSTER
Chief Financial Officer

Company Statement of Changes in Equity

YEAR ENDED 31 DECEMBER 2022

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total Shareholders' Funds £'000
Balance at 1 January 2021		12,012	132,729	4,203	148,944
Total comprehensive income for the period	3	–	–	6,574	6,574
Transactions with owners of the Company, recognised in equity:					
Dividends paid	5	–	–	(2,403)	(2,403)
Share-based payments	13	–	–	235	235
Exercise of share options		7	69	–	76
Balance at 31 December 2021 and 1 January 2022		12,019	132,798	8,609	153,426
Total comprehensive income for the period	3	–	–	1,363	1,363
Transactions with owners of the Company, recognised in equity:					
Dividends paid	5	–	–	(2,644)	(2,644)
Share-based payments	13	–	–	378	378
Balance at 31 December 2022		**12,019**	**132,798**	**7,706**	**152,523**

Company Cash Flow Statement

YEAR ENDED 31 DECEMBER 2022

		As at 31 December	
	Note	2022 £'000	2021 £'000
Comprehensive (loss)/income for the year before tax		**(35)**	6,080
Adjustments for:			
Depreciation		**4**	–
Finance (income)/cost		**(956)**	696
Proceeds from dividends of subsidiaries		**–**	(8,091)
Share-based payment expense	13	**378**	235
Operating cash flows before movements in working capital		**(609)**	(1,080)
(Increase)/decrease in receivables	7	**5,965**	3,550
Increase/(decrease) in payables	9	**(2,636)**	(135)
Net cash flow from operating activities		**2,720**	2,335
Investing:			
Acquisition of property, plant and equipment ROU asset		**(48)**	–
Net cash used in investing activities		**(48)**	–
Financing:			
Receipts from issue of share capital		**–**	76
Payments of lease liabilities		**(5)**	–
Interest (paid)/received		**(5)**	46
Equity dividends paid	5	**(2,644)**	(2,403)
Net cash used in financing activities		**(2,654)**	(2,281)
Net increase/(decrease) in cash and cash equivalents		**18**	(54)
Cash and cash equivalents at start of year		**6**	60
Cash and cash equivalents at end of year		**24**	6
Comprising:			
Cash and cash equivalents	8	**24**	6

Notes to the Company Financial Statements

YEAR ENDED 31 DECEMBER 2022

1. Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the Company.

Basis of preparation

The Company financial statements cover the period of 12 months from 1 January 2022 to 31 December 2022.

The financial statements have been prepared and approved by the Directors under the historical cost convention, in accordance with UK-adopted international accounting standards ("IFRS") and in conformity with the requirements of the Companies Act 2006 as applicable to companies reporting under IFRS. They have also been prepared in accordance with the requirements of the AIM Rules.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present a separate Profit and Loss account in these separate financial statements. The profit dealt with in the financial statements of the Company was £1,363k (2021: £6,574k profit).

The accounting policies of the Company are the same as for the Group, where applicable.

Going concern

The Group's financing arrangements consist of a committed revolving credit facility of €41.5m (£36.8m) and a €10.0m (£8.9m) acquisition line, the latter of which cannot be utilised to fund our operations.

The facilities remain subject to the following covenants which are in operation at all times:

Net debt to underlying EBITDA ratio of 3.5 times; underlying EBITDA to interest ratio of minimum 4 times; and solvency (total assets less goodwill/total equity less goodwill) greater than 25%. As at 31 December 2022 and throughout the financial year, all covenant requirements were met with significant headroom across all three measures. The principal risks and uncertainties facing the Group are set out in the Strategic Report on pages 4 to 41.

The Directors have prepared cash flow forecasts for a period of at least 12 months from the date of signing of these financial statements (the going concern assessment period). These forecasts indicate that the Company and Group will have sufficient funds and liquidity to meet its obligations as they fall due, taking into account the potential impact of "severe but plausible" downside scenarios to factor in a range of downside revenue estimates and higher than expected inflation across our cost base, with corresponding mitigating actions. The output from these scenarios shows the Company and Group have adequate levels of liquidity from the committed facilities and complies with all banking covenants throughout the going concern assessment period. Accordingly, the Directors continue to adopt the going concern basis of preparation.

Employee benefits – pensions

The Company operates a stakeholder pension scheme available to all eligible employees. Payments to this scheme are charged as an expense as they fall due.

Investments in subsidiaries

Investments in Group companies are stated at cost less provisions for impairment losses.

Impairment indicator assessments are undertaken annually at the financial year end.

Whenever events or changes in circumstances indicate that the carrying amount of investments may not be recoverable, they are subject to impairment tests.

Where the carrying value of investments exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the investments are written down accordingly.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to future cash flows projected after the fifth year.

Impairment charges are included in profit or loss.

Dividends

Dividends paid are recognised within the statement of changes in equity only when an obligation to pay the dividend arises prior to the year end.

Share-based payments

The Company operates a number of equity-settled share-based payment programmes that allow employees to acquire shares of the Company via a Long Term Incentive Plan for certain members of the Leadership Team and Executive Directors. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of such equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions (with a corresponding movement in equity).

The fair value of the options issued under the Long Term Incentive Plan has been determined using both the Black–Scholes and Monte Carlo simulation models, in conjunction with a third-party valuation specialist.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year.

Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

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

The Company measures loss allowances at an amount equal to lifetime ECL, except for bank balances for which credit risk (i.e. risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Notes to the Company Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2022

1. Significant accounting policies (CONTINUED)

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Non-recurring items

Non-recurring items are items of income or expense which, because of their nature and the expected frequency of the events giving rise to them, merit separate disclosure as exceptional items.

The separate presentation of exceptional items enables the users of the financial statements to better understand the elements of trading performance during the year and hence to better assess trends in that performance.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits repayable on demand, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Finance income and expense

Finance income comprises interest receivable on funds invested that are recognised in the income statement.

New standards adopted as of 2022

Standards and interpretations applicable for the annual period beginning on or after 1 January 2022:

- Amendment to IFRS 16 Leases: COVID-19-Related Rent Concessions beyond 30 June 2021 (applicable for annual periods beginning on or after 1 April 2021)
- Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use (applicable for annual periods beginning on or after 1 January 2022)
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts — Cost of Fulfilling a Contract (applicable for annual periods beginning on or after 1 January 2022)
- Amendments to IFRS 3 Business Combinations: Reference to the Conceptual Framework (applicable for annual periods beginning on or after 1 January 2022)
- Annual Improvements to IFRS Standards 2018–2020 (applicable for annual periods beginning on or after 1 January 2022)

The Company has no transactions that would be affected by the newly effective standards or its accounting policies are already consistent with the new requirements. The Company has not early adopted any standards.

Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2022

The IFRS accounting standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards and interpretations, if applicable, when they become effective. These new standards will have no material impact on the Company's financial statements.

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (applicable for annual periods beginning on or after 1 January 2024 or later, but not yet endorsed in the UK)
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (applicable for annual periods beginning on or after 1 January 2023)
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (applicable for annual periods beginning on or after 1 January 2023)
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (applicable for annual periods beginning on or after 1 January 2023)
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (applicable for annual periods beginning on or after 1 January 2024, but not yet endorsed in the UK)

Significant accounting judgements, estimates and assumptions

CARRYING VALUE OF INVESTMENTS IN SUBSIDIARY COMPANIES

Investments in subsidiaries are reviewed annually for impairment when indicators for impairment are identified. Determining whether the Company's investments in subsidiaries have been impaired requires estimations of the investments' values in use or consideration of the net asset value of the entity. The value in use calculations require the entity to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate present values. Such calculations are prepared in conjunction with the impairment test in relation to goodwill, details of which are provided in Note 8 of the consolidated financial statements.

2. Non-underlying items

	For the year ended 31 December	
	2022 £'000	2021 £'000
Acquisition and integration costs	**85**	–
Other exceptional costs	**–**	109
Total exceptional and other items	**85**	109

The Company presents certain items as exceptional income or expense that, in the judgement of the Directors, merit separate disclosure by virtue of their nature, size and incidence.

Acquisition & integration costs during 2022 of £85k mainly relate to professional fees in respect of legal and tax structuring advice.

3. Total comprehensive income for the year

	For the year ended 31 December	
	2022 £'000	2021 £'000
Total comprehensive income for the year has been arrived at after charging/(crediting):		
Finance income	**(1,230)**	–
Finance costs	**274**	696
Dividend income received from subsidiary – Ecuphar NV	**–**	8,091

The above items are those charged/(credited) to total comprehensive income only. Full details on items charged to non-underlying items are contained in Note 2.

The analysis of remuneration paid to the Company's auditors for the audit of the Company's financial statements is as follows:

	For the year ended 31 December	
	2022 £'000	2021 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**120**	110
Total audit fees	**120**	110

Notes to the Company Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2022

4 Directors' remuneration and interests

Emoluments

There were no employees of the Company. The various elements of remuneration received by each Director were as follows:

Year ended 31 December 2022	Salary £'000	Bonus £'000	Company pension contributions £'000	Benefits £'000	Compensation for loss of office £'000	Total £'000
J Boone*	70	–	–	–	–	70
C Brewster[2]	230	–	22	14	–	266
M Coucke*	40	–	–	–	–	40
N Downshire*[3]	17	–	–	–	–	17
D Hutchens[4]	38	–	–	–	–	38
S Metayer[5]	30	–	–	–	–	30
E Torr*[6]	45	–	–	–	–	45
J Winter[1]	336	–	–	15	–	351
Total	806	–	22	29	–	857

* Indicates Non-Executive Directors

1 Jennifer Winter's benefits comprise a car allowance (£10.5k) and private medical insurance (£4.4k).

2 Chris Brewster's benefits comprise a car allowance pro-rated to 31 August (£7.0k) which was replaced by a company car from 1 September, with a pro-rated lease cost of £4.5k from 1 September to 31 December, and private medical insurance (£2.4k).

3 Nick Downshire ceased to be a Director on 7 June 2022. His annual fee of £40.0k was pro-rated to his date of resignation; the pro-rated fee for 2022 was £17.4k.

4 Doug Hutchens was appointed as a Director on 10 February 2022 for an annual fee of £40.0k. He was appointed to the two Board committees on 7 June 2022 and his annual fee was increased to £45k. Annual fees were pro-rated from the dates of appointment; the total fee paid in 2022 was £38.1k.

5 Sylvia Metayer was appointed as a Director with effect from 3 May 2022. Her annual fee of £40.0k, and an additional annual fee of £5.0k for her role as Chair of the Audit & Risk Committee, were pro-rated from her date of appointment. The pro-rated fee for 2022 was £29.9k.

6 Ed Torr receives an annual fee of £40.0k and an additional fee of £5.0k for his chairmanship of the Remuneration and Nomination Committee.

Year ended 31 December 2021	Salary £'000	Bonus £'000	Company pension contributions £'000	Benefits £'000	Compensation for loss of office £'000	Total £'000
J Boone*	70	–	–	–	–	70
C Brewster	209	84	23	12	–	328
C Cardon[1]	18	–	–	–	–	18
M Coucke*	40	–	–	–	–	40
N Downshire*	40	–	–	–	–	40
E Torr*	45	–	–	–	–	45
J Winter	306	153	–	14	–	473
Total	728	237	23	26	–	1,014

* Indicates Non-Executive Directors

1 Resigned 8 July 2021

The approved bonus awards to C Brewster and J Winter in respect of the 2021 financial year were accrued as at 31 December 2021 and were settled during 2022. All Company pension contributions relate to defined contribution pension schemes. Benefits consist of company car and private medical insurance.

Information relating to Directors' share options, including awards made during the financial year, is set out in the Directors' Remuneration Report.

5. Dividends

	For the year ended 31 December	
	2022 **£'000**	2021 £'000
Ordinary final dividend As at 31 December 2020 of 2.0p per share	**–**	1,201
Ordinary interim dividend paid for the period ended 31 December 2021 of 2.0p per share	**–**	1,202
Ordinary final dividend As at 31 December 2021 of 2.4p per share	**1,442**	–
Ordinary interim dividend paid for the period ended 31 December 2022 of 2.0p per share	**1,202**	–
	2,644	2,403

An interim dividend of 2.0 pence per share was paid in November 2022. The Board is proposing a final dividend of 2.4 pence per share (2021: 2.4 pence per share). Subject to shareholder approval at the Annual General Meeting to be held on 13 June 2023, the final dividend will be paid on 14 July 2023 to shareholders whose names are on the Register of Members at close of business on 16 June 2023. The ordinary shares will become ex-dividend on 15 June 2023.

6. Investments in subsidiaries

Subsidiary undertakings

Cost	**2022** **£'000**
At 1 January 2022	**147,743**
LTIP granted to employees of subsidiaries	**174**
At 31 December 2022	**147,917**

Investments in subsidiaries are assessed annually to determine if there is any indication that these may be impaired.

The recoverable amount of investments in subsidiaries was determined based on a value in-use calculation. The discount rate and growth rate (in perpetuity) used for these calculations are as follows:

	2022	2021
Discount rate (pre-tax) %	**14.2**	11.8
Growth rate (in perpetuity) %	**2.0**	1.9

Cash flow forecasts are prepared using the current financial budget approved by the Directors, which covers a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated long-term growth rate. The cash flow forecasts assume revenue and profit growth in line with the five pillars of our growth strategy. The key assumptions surrounding revenue growth incorporate an average annual growth rate over the five-year forecast period for the existing core brands, based on past performance and expectations of the animal health market development, together with well above-market growth for recently launched and expected to be launched new products and services. Further, we have assessed the potential impact of climate change, with reference to our principal risks and the environmental disclosures made in the Sustainability report and consider that the impact on the valuation of investments in subsidiaries is limited.

The Group's impairment review is sensitive to change in assumptions used, most notably the expected future cash flows arising from growth in new products and services, discount rates and the perpetuity growth rates.

If the expected revenue growth and related cost of sales in the five year forecast period in relation to recently launched and expected to be launched new products and services (as explained in Our Strategy within the Annual Report) was 5% lower than management's estimates, with prudently, no corresponding mitigation in SG&A costs, the value in use would reduce by £5.7m but would not give rise to an impairment. A 10% reduction in the forecast revenues and related cost of sales for these products and services across the five year forecast period would result in the Company having to recognise an impairment against the carrying value of investments of £2.0m. A 1.0% increase in discount rate would cause the value in use to reduce by £17.1m and give rise to an impairment of £7.8m. A 2.0% increase in discount rate would lead to an impairment of £21.9m. A 1.0% reduction in perpetuity growth rates would reduce the value in use by £13.3m, and give rise to an impairment of £4.0m while reducing the long-term growth to 0.0% would result in a £15.0m impairment. Overall forecast compound revenue growth over the five-year period for all products is 6.4%. Headroom is reduced to nil if this rate falls to 5.8%, assuming gross margin percentages remain consistent with forecast and with no corresponding mitigation in SG&A costs.

Notes to the Company Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2022

6. Investments in subsidiaries (CONTINUED)

A list of the subsidiary undertakings, all of which are wholly owned, is given below.

Name	Country of registration or incorporation	Registered address	Principal activity	Class
Ecuphar NV	Belgium	Legeweg 157i, 8020 Oostkamp	Holding company, marketer of veterinary pharmaceuticals	Ordinary
Animalcare Limited[2]	United Kingdom	Moorside, Monks Cross, York YO32 9LB	Developer and marketer of veterinary pharmaceuticals	Ordinary
Identicare Limited[2]	United Kingdom	Moorside, Monks Cross, York YO32 9LB	Microchipping and other associated services	Ordinary
Orthopaedics.be NV[1,2]	Belgium	Legeweg 157i, 8020 Oostkamp	Non-trading	Ordinary
Ecuphar BV2	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	Marketer of veterinary pharmaceuticals	Ordinary
Ecuphar Veterinary Products BV[2]	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	Non-trading	Ordinary
Ornis SARL[2]	France	Rue de Roubaix 33, 59200 Tourcoing	Non-trading	Ordinary
Ecuphar GmbH[2]	Germany	Brandteichstraße 20, 17489 Greifswald	Marketer of veterinary pharmaceuticals	Ordinary
Euracon Pharma Consulting & Trading GmbH[2]	Germany	Max-Planck Str. 11, 85716 Unterschleißheim	Non-trading	Ordinary
Ecuphar Veterinaria SL[2]	Spain	Carrer Cerdanya, 10, 12, 08173 Sant Cugat del Vallès, Barcelona	Developer and marketer of veterinary pharmaceuticals	Ordinary
Ecuphar Italia SRL[2]	Italy	Viale Francesco Restelli, 3/7, piano 1, 20124 Milano	Marketer of veterinary pharmaceuticals	Ordinary
Belphar IDA[2]	Portugal	Sintra Business Park , nº 7, Edifício 1- Escritório 2K, 2710 089 Sintra	Marketer of veterinary pharmaceuticals	Ordinary

1 As per 23 December 2022, the extraordinary shareholders meeting of Orthopaedics.be NV decided upon the dissolution and liquidation of the company.

2 These subsidiaries are indirectly owned through related undertakings in the list.

7. Trade and other receivables

	As at 31 December	
	2022 £'000	2021 £'000
Corporation tax – Group relief	**1,265**	485
Prepayments and accrued income	**86**	65
Amounts due from subsidiaries	**3,024**	7,953
	4,375	8,502

The Directors consider that the carrying amount of other receivables approximates to their fair value.

Amounts due by Group undertakings at 31 December 2022 are unsecured, have no fixed date of repayment and are repayable on demand.

8. Cash and cash equivalents

	As at 31 December	
	2022 £'000	2021 £'000
Cash and cash equivalents	24	6

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less.

9. Other financial liabilities

	As at 31 December	
	2022 £'000	2021 £'000
Current liabilities	**468**	2,869
Trade payables	**354**	342
Lease liabilities	**12**	–
Other taxes and social security costs	**33**	52
Other creditors	**11**	7
Amounts payable to subsidiaries	**–**	2,106
Accruals	**58**	362
Non-Current liabilities	**31**	–
Lease liabilities	**31**	–
	499	2,869

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. The amount payable to subsidiaries is repayable on demand.

10. IFRS 16 Leases

The balance sheet shows the following amounts relating to leases as at 31 December:

	2022 £'000	2021 £'000
Vehicles	**44**	–
Total right-of-use assets	**44**	–
Current lease liabilities	**12**	–
Non-current lease liabilities	**32**	–
Total lease liabilities	**44**	–

Below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	Vehicles £'000	**Total £'000**
Acquisition value/cost		
At 1 January 2022	–	–
Additions	48	48
At 31 December 2022	**48**	**48**
Depreciation		
At 1 January 2022	–	–
Depreciation charge for the year	(4)	(4)
At 31 December 2022	**(4)**	**(4)**
Net book value		
At 31 December 2022	**44**	**44**

10. IFRS 16 Leases (CONTINUED)

The following amounts are recognised in the income statement:

	For the year ended 31 December 2022 £'000
Depreciation expense of right-of-use assets	**(4)**
Total amount recognised in the income statement	**(4)**

11. Deferred tax

The following are the major components of the deferred tax assets recognised by the Company, and the movements thereon, during the current and prior reporting period:

	Accelerated tax depreciation £'000	Tax losses £'000	Other £'000	Total £'000
Balance at 1 January 2022	(1)	–	(43)	(44)
(Credit)/charge to income	(1)	(633)	16	(618)
At 31 December 2022	**(2)**	**(633)**	**(27)**	**(662)**

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would move to 25% (rather than remain at 19%, as previously enacted). Deferred taxes as at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

12. Number of shares to be disclosed

Share capital

	No.	£'000
Allotted, called up and fully paid at 1 January 2022 and 31 December 2022	60,092,161	12,019

13. Share-based payments

During the year the Company operated a Long Term Incentive Plan ("LTIP") where options are granted to subscribe for new shares in the Company for to certain members of the Group's Senior Executive Team and other members of the Leadership Team. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of such equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions (with a corresponding movement in equity).

The fair value of the options issued under the Long Term Incentive Plan have been determined using both the Black–Scholes and Monte Carlo simulation models, in conjunction with a third-party valuation specialist.

Long Term Incentive Plan ("LTIP")

The Group has made a number of awards pursuant to the LTIP.

	2022 LTIP option	2021 LTIP option	2020 LTIP option	2019 LTIP option
Outstanding at 1 January 2022	–	264,981	360,565	364,278
Granted during the year	302,037	–	–	–
Vested during the year	–	–	–	(145,382)
Lapsed during the year	–	(9,231)	(17,978)	(218,896)
Outstanding at 31 December 2022	**302,037**	**255,750**	**342,587**	**–**
Exercisable at 31 December 2022	–	–	–	145,382

The options outstanding and exercisable at the year-end have a weighted average remaining contractual life of 8.34 years.

The options granted in 2022 and 2021 will vest subject to the following performance conditions based on EPS being met:

Earnings Per Share growth	Extent to which EPS tranche will vest
Less than 3%	0%
3%	25%
10%	100%
Between 3% and 10%	Between 25% and 100% on a straight line basis

The 2020 and 2019 options were subject to the following performance conditions based on EPS being met:

Earnings Per Share growth	Extent to which EPS tranche will vest
Less than 3%	0%
3%	25%
8%	100%
Between 3% and 8%	Between 25% and 100% on a straight-line basis

All options granted are subject to the same TSR performance criteria as per the table below:

Rank of the Company's TSR compared to the Comparator Group	Extent to which the TSR tranche will vest
Upper quartile or above	100%
Between median and upper quartile	Pro rata between 25% and 100% on a ranking basis
Median	25%
Below median	0%

13. Share-based payments (CONTINUED)

2022 LTIP Options

On 28 April 2022, the Board approved the grant of nil-cost options under the LTIP over a total of 302,037 ordinary shares with a nominal value of 20.0 pence per share which were awarded to the Company's Executive Directors and certain members of the Senior Executive Team and Leadership Team. The LTIP awards will vest on 1 July 2025 subject to the performance criteria being met over the three-year financial period ending 30 June 2025. On vesting, awards can be exercised until 28 April 2032, being the tenth anniversary of the date of grant.

50% of the option award will be subject to the EPS performance condition and the remaining 50% will be subject to the TSR performance condition. Accordingly, if one of the performance conditions is met but the other is not, the Option award will vest in part.

The fair value of the options issued under the LTIP have been determined using both the Black–Scholes and Monte Carlo simulation models, in conjunction with a third-party valuation specialist.

Inputs into the option pricing models were as follows:

Weighted average share price	£3.23
Weighted average exercise price	£Nil
Expected volatility	30.1%
Expected life	3.2 years
Expected dividend yield	1.24%
Fair value per option – EPS tranche	£3.10
Fair value per option – TSR tranche	£2.57
Risk-free rate	1.58%

2021 LTIP Options

On 5 November 2021, nil-cost options over a total of 264,981 ordinary shares with a nominal value of 20p per share were awarded to certain members of the Senior Executive Team and Group Leadership Team. During the year 9,231 of the options lapsed due to cessation of employment, leaving 255,750 options outstanding.

The awards will normally vest three years after the date of grant subject to the performance criteria being met over the three-year financial period ending 31 December 2024. On vesting, awards can be exercised until 5 November 2031, being the tenth anniversary of the date of grant.

Fifty per cent of the option award will be subject to the EPS performance condition and the remaining 50% will be subject to the TSR performance condition. Accordingly, if one of the performance conditions is met but the other is not, the Option award will vest in part.

The fair value of the options issued under the LTIP was determined using both the Black–Scholes and Monte Carlo simulation models, in conjunction with a third-party valuation specialist.

Inputs into the option pricing models were as follows:

Weighted average share price	£3.62
Weighted average exercise price	£Nil
Expected volatility	32.0%
Expected life	3.2 years
Expected dividend yield	1.10%
Fair value per option – EPS tranche	£3.50
Fair value per option – TSR tranche	£2.56
Risk-free rate	0.39%

2020 LTIP Options

On 17 November 2020, nil-cost options over a total of 377,120 ordinary shares with a nominal value of 20p per share were awarded to certain members of the Senior Executive Team and Group Leadership Team. During 2021, 16,555 of the options lapsed due to cessation of employment. During 2022, a further 17,978 options lapsed, leaving 342,587 options outstanding.

The awards will normally vest three years after the date of grant subject to the performance criteria being met over the three-year financial period ending 31 December 2023. On vesting, awards can be exercised until 17 November 2030, being the tenth anniversary of the date of grant.

Fifty per cent of the option award will be subject to the EPS performance condition and the remaining 50% will be subject to the TSR performance condition. Accordingly, if one of the performance conditions is met but the other is not, the Option award will vest in part.

The fair value of the options issued under the LTIP was determined using both the Black–Scholes and Monte Carlo simulation models, in conjunction with a third-party valuation specialist.

Inputs into the option pricing models were as follows:

Weighted average share price	£1.72
Weighted average exercise price	£Nil
Expected volatility	29.0%
Expected life	3.1 years
Expected dividend yield	2.30%
Fair value per option – EPS tranche	£1.60
Fair value per option – TSR tranche	£1.25
Risk-free rate	0.50%

2019 LTIP Options

On 6 June 2019, nil-cost options over a total of 425,279 ordinary shares with a nominal value of 20p per share were awarded to certain members of the Senior Executive Team and Group Leadership Team. On 29 June 2020, a further grant of 14,076 ordinary shares was made to a member of the Group Leadership Team pursuant to the same performance and vesting criteria as the 2019 LTIP options. During 2020 and 2021, 56,488 and 18,589 options lapsed respectively due to cessation of employment, leaving 364,278 options outstanding as at 1 January 2022.

On 23 March 2022, 20,187 options lapsed due to cessation of employment. On 6 June 2022, 145,382 options granted on 6 June 2019 vested, with the remaining 198,709 options lapsed. These vested options have yet to be exercised; the participants have 6.4 years in which to exercise these options.

Details of the performance targets set and actual achievement against them in respect of the 2019 LTIP awards vesting, based on three-year performance to 31 December 2021, are set out in the table below:

Performance measure	Weighting	Performance period end	Threshold (25% vesting)	Maximum (100% vesting)	Actual	% vesting for this part of the award
Underlying EPS	50%	31 December 2021	12.8p	14.7p	12.0p	0%
TSR	50%	31 December 2021	Median	Upper quartile	Between median and upper quartile	83.0%

Notes to the Company Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2022

13. Share-based payments (CONTINUED)

Identicare share-based payment arrangement

As disclosed and detailed within note 26 to the Consolidated Financial Statements, during the year, the Group entered into a share-based payments arrangement in respect of growth shares issued in its subsidiary, Identicare Limited ("Identicare"). Given the terms applied to the shares, the Group has accounted for these as equivalent to redeemable shares, and as a result of the requirement for ongoing employment have applied the principles of IFRS 2 'Share-based payments' to the arrangement. The arrangement stipulates that a minimum of 50% of the shares are to be purchased in cash upon redemption, with the remaining 50% having choice of settlement, at the discretion of the Group, to either issue shares in the Group or purchase with further cash. In line with IFRS 2, 50% of the arrangement has therefore been accounted for as a cash-settled share-based payment arrangement, reflecting the Group's potential obligation to repurchase the shares in the event that no exit occurs, with the other 50% of the arrangement being treated as an equity-settled share-based payment due to there being no present obligation to settle in cash.

In the Company financial statements, the equity-settled element of the arrangement has been recognised with a corresponding credit to equity as the employing subsidiary, Identicare, receives services from employees as consideration for equity instruments in Animalcare Group plc.

The fair value of the equity-settled portion of the arrangement was £547k, determined at the date of issue of the shares using a Monte Carlo simulation, in conjunction with a third-party valuation specialist, taking into account the exit terms noted earlier.

The following inputs have been used to determine the fair value:

Valuation date	1 January 2022
Starting enterprise value	£6.9m
Closing net debt	£3.3m
Expected volatility	32.75%
Risk-free rate	0.72%
Expected dividend yield	0.00%
Expected life	3 years

The Company recognised a total charge in relation to share-based payments in respect of the Company's employees of £204,000 (2021: £235,000).

14 Related party transactions

Trading transactions

During the years ended 31 December 2022 and 31 December 2021, the following trading transactions took place between the Company and its subsidiaries.

2022	Ecuphar NV £'000	Ecuphar BV £'000	Animalcare Limited £'000	Identicare Limited £'000	Ecuphar GmbH £'000	Ecuphar Veterinaria SA £'000	Ecuphar Italia £'000	Belphar IDA £'000	Total £'000
Management charges levied/(received)	**915**	**–**	**(9)**	**–**	**–**	**57**	**27**	**7**	**997**
Current account interests levied/(received)	**66**	**–**	**(7)**	**–**	**4**	**–**	**–**	**–**	**63**
Other levied	**5**	**1**	**–**	**–**	**–**	**–**	**–**	**8**	**14**
Total	**986**	**1**	**(16)**	**–**	**4**	**57**	**27**	**15**	**1,074**

20221	Ecuphar NV £'000	Ecuphar BV £'000	Animalcare Limited £'000	Identicare Limited £'000	Ecuphar GmbH £'000	Ecuphar Veterinaria SA £'000	Ecuphar Italia £'000	Belphar IDA £'000	Total £'000
Management charges levied/(received)	933	–	42	–	–	9	15	9	1,008
Current account interests levied/(received)	9	–	(35)	–	–	–	–	–	(26)
Other levied	2	–	–	–	–	–	–	–	2
Total	944	–	7	–	–	9	15	9	984

Remuneration of key management personnel

Remuneration of the Executive Directors, who are the key management personnel, is provided in Note 4 and further disclosed below:

	For the year ended 31 December	
	2022 £'000	2021 £'000
Short term employment benefits	**672**	887
Post employment benefits	**22**	23
Share-based payments	**204**	235
Total remuneration	**898**	1,145

Short term employment benefits comprise £566k salaries (2021: £515k), £nil annual bonus (2021: £237k), £29k of benefits (2021: £26k) and £77k of employer social security contributions (2021: £109k).

Shareholder Notes

Directors and Advisers

Directors

D Hutchens
(appointed 10 February 2022)
C J Brewster
E Torr
J Boone
J Winter
Lord N Downshire
(ceased to be a Director on 7 June 2022)
M Coucke
Sylvia Metayer (appointed 3 May 2022)

Secretary

C J Brewster

Company Number

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