ANIMALCARE
GROUP PLC

ANNUAL REPORT
for the year ended
31 December 2019

WELCOME TO ANIMALCARE GROUP PLC

Animalcare is a passionate organisation committed to leading in animal health through innovative and trusted products and services to support the veterinary profession.
We care about the well-being of animals and the positive impact that healthy animals have on their owners and society.

Read about our **Business** on **page 08**

Read more online at **www.animalcaregroup.com**

We are focused on financial sustainability and long-term growth.

HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Significant improvement in cash performance and reduced net debt

Revenue
£71.1m

↓1.9%

(+2.7%)

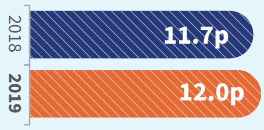
Underlying** EBITDA
£13.1m

↑11.3%

(+1.7% adjusted)

Underlying* Basic EPS
12.0p

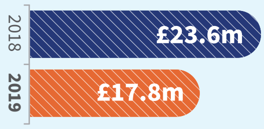
↑2.6%



Net debt
£17.8m

↓£5.8m

Net debt 2019 = £17.8m with net debt: underlying EBITDA leverage ratio at 1.4 times



STRATEGIC AND OPERATIONAL HIGHLIGHTS

- Strengthened capability in strategically important areas of business development and marketing
- Significant progress towards goal of generating 80% of revenue from top 20 products in pursuit of a more profitable portfolio
- Newly introduced Companion Animal products contributing to sales with £1.5m generated in the year. Four 2019 product launches expected to show sales benefit in 2020
- Internal pipeline progressing with completion of clinical studies and regulatory submission post year end for Enflicoxib E6087 for treatment of pain in dogs
- Partnering efforts yield new distribution deals that strengthen treatment options in growth segments of Companion Animals and Equine

* A reconciliation of underlying to reported results can be found on page 20

** A reconciliation of underlying to reported results may be found on page 18

Strategic Report

CHAIRMAN'S STATEMENT

> *"Our goal is to become a leading animal health company. Through delivery of our strategy we are now able to leverage our increasingly strong base to drive future business growth."*

Jan Boone
Non-Executive Chairman

Read about our **Group at a glance** on **page 04**

Read about our **Strategy** on **page 12**

I am pleased to report another year of solid progress for Animalcare Group as we continue to build a strong platform that will deliver sustainable, profitable growth.

Underlying group earnings for 2019 were in line with market expectations despite the impact on revenue of previously reported supply challenges and the continuing reduction in antibiotic usage for production animals. Consistent with our financial priorities, we reported a strong cash performance versus last year reflected in improved cash conversion and a reduction in net debt of more than 30%. We also demonstrated a notable improvement in operating efficiency. After underlying adjustments totalling £10.8m, the loss before tax on a reported basis was £1.6m (2018: £0.4m loss).

Our long-term goal is to become a leading animal health company. Through delivery of our strategy we are better able to leverage our strong base to drive future business growth. This will be achieved through a focus on current key brands as well as new products, particularly higher margin differentiated products within core therapy areas. Alongside this we will continue to work with high calibre partners to further build a pipeline of products that meets our criteria for growth.

Since joining Animalcare in October 2018, our CEO Jenny Winter has charted a clear path for the business based upon delivery against five strategic pillars. A key part of this strategy has been to build our capability in functions that will drive growth, most notably within business development and marketing where we have made some excellent additions to the team.

The Group's performance in 2019 means we entered 2020 in a strong financial position. This has never been more important as the world faces an unprecedented challenge posed by the coronavirus pandemic. Our financial strength will help maintain the Group's operational resilience while enabling us to remain focused on our long-term growth strategy. With this in mind, spending and overheads are being minimised while capital expenditure, where appropriate, has been frozen. And, as announced in March 2020, the Board has decided to defer payment of the final dividend, thereby preserving approximately £1.4 million in cash in the Group.

Our overarching priority is, as always, the safety and wellbeing of our employees. We were rapid adopters of home working to safeguard our people, their families and the wider community while allowing us to continue serving the needs of our customers.

At time of publication, it is too early to forecast the extent of any economic impact on the Group. After a strong performance in the first three months, it is clear, however, that significant disruption to the animal health sector is unavoidable with a resulting downturn in demand visible from the second quarter of 2020.

I'm confident that our agility, an intimate knowledge of our markets and a clear strategic focus – combined with our financial strength – positions us to emerge successfully from these unprecedented circumstances.

All this underlines the crucial importance of the people whose enthusiasm, expertise and skill drive this business forward every day. On behalf of the Board I want to offer a huge thanks to our staff for their continued dedication to Animalcare, particularly during this period of uncertainty.

I would also like to thank you, our shareholders, for your ongoing support and faith in this great business. We will keep you updated on our progress during the course of the year.

Jan Boone
Non-Executive Chairman

WHY ANIMALCARE?

Our relationship with key stakeholders

Strong Financial Platform

Establishing a strong financial platform is at the heart of our strategy and we set ourselves the target of identifying opportunities for revenue growth, improving cash conversion and reducing debt. Cash generation improved significantly during 2019, providing the funds we need to invest in growth.

Customer Relationships

With an agile business model, and strong brands in our core therapeutic areas, we work closely with our customers to support them as a trusted partner and to ensure we are aligned with their changing needs.

Partnerships

Animalcare offers access for companies and researchers seeking to commercialise novel and high quality pharmaceutical and OTC products to vets across Europe via our specialist sales organisations and strong third-party relationships; at the same time, we seek to commercialise our own innovation in markets outside Europe through best-in-class collaborations.

Organisation for success

We have continued to strengthen our leadership team and our capabilities across the organisation which is critical to our long-term success. As the veterinary market evolves with the introduction of corporate ownership of practices, we are continuing to build the right team and capabilities to work with this relatively new stakeholder group across Europe.

Read about how we create value for stakeholders in **Our Business Model** on **page 08**
Read about how we engage with stakeholders in **Our stakeholders** on **page 10**

1. **European animal healthcare company operating in companion, equine and production animal markets**

Read about our **Group at a glance** on **page 04**

2. **Product sales in 32 European markets through direct commercial presence and partnerships**

Read about our **Group at a glance** on **page 04**

3. **Supporting the needs of veterinary professionals in our core areas of pain management, dental, dermatology, disease prevention, surgery and microchipping**

Read about our **Business model** on **page 08**

4. **Developing a pipeline of novel and differentiated products from external and internal sources**

Read about **Delivering our Strategy** on **page 12**

We benefit from great products, a well established distribution network and strong relationships. These enable Animalcare to ensure the long term viability of our organisation and economic sustainability.

OUR GROUP AT A GLANCE

We develop, supply and market veterinary pharmaceutical products and services to support the veterinary profession.

What we do

- We develop and commercialise trusted pharmaceutical and OTC products that improve animal health and wellbeing. These are developed in house, acquired from other companies or in-licensed from our partners.
- We manage a complex international supply chain, including specialist veterinary wholesalers and distributors.
- We partner with companies to commercialise products across Europe.
- We sell products to veterinary practices and veterinary groups through our own highly skilled sales force.

Our products

Our products can be divided into three categories: Companion Animals, Production Animals and Equine. We have a broad portfolio of products targeted primarily at the veterinary profession and our Top 20 brands (including those listed in the table below) account for 46% of total revenue which we aim to increase over the next three to five years to 80%.

1. **Aqupharm**
Intravenous fluid range for companion and production animals used during routine operations and for the treatment of dehydration and shock.

2. **Benazecare**
Flavoured tablet for the treatment of congestive heart failure in dogs and the treatment of chronic renal insufficiency in cats.

3. **Conofite**
A topical suspension for cats and dogs with antifungal, antibiotic and anti-inflammatory properties used for the treatment of ear infections, ear mites and dermatitis.

4. **Cosequin**
A chewable range of joint supplements for cats, dogs and horses.

5. **Danilon**
A non-steroidal anti-inflammatory oral granule product for horses used in the treatment of pain and inflammation associated with musculoskeletal conditions.

6. **Dinalgen**
A non-steroidal anti-inflammatory injectable product for cows, pigs and horses used in the treatment of pain and inflammation.

7. **Filavac**
A rabbit vaccine to prevent against Rabbit Haemorrhagic Disease Types 1 and 2.

8. **Leisguard**
An oral suspension product to protect dogs against leishmaniasis disease (parasitic disease).

9. **Orozyme**
Dental range consisting of palatable rawhide chews and a hygiene gel for dogs formulated with enzymes selected to remove plaque from teeth and gums.

10. **Seponver**
Antiparasitic oral suspension for sheep.

OUR GEOGRAPHIC PRESENCE

We have direct commercial presence in seven European countries, with product sales in 32 markets. Animalcare is a partner for companies selling into and across Europe.

Our Companies

We operate in seven countries, each responsible for their respective sales and marketing activities. Our principal operating subsidiaries are as follows:

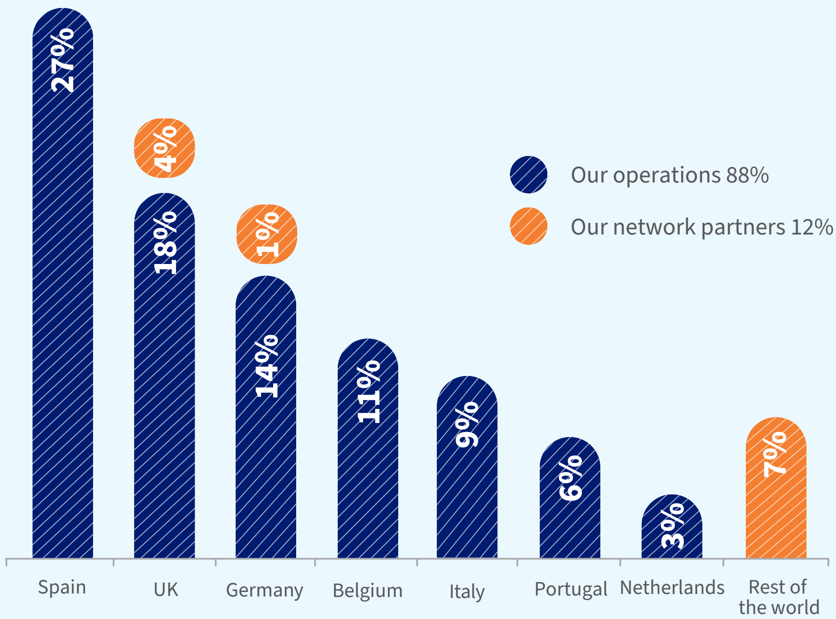
- Ecuphar NV
- Ecuphar BV
- Ecuphar GmbH
- Ecuphar Veterinaria SLU
- Ecuphar Italia Srl
- Belphar Lda
- Animalcare Ltd

KEY

Our operations

Our network partners

Revenue % by country



Read about our **Business model at a glance** on page 08

OUR MARKETPLACE

We monitor the market trends in order to understand the opportunities for Animalcare. We are focused on the therapeutic areas with good growth potential such as pain, disease prevention and dermatology.

Therapeutic markets

Pain

With improving health management and better access to veterinary medicines, companion animals are living longer than ever before. Chronic conditions such as Osteoarthritis affect up to a quarter of dogs[1] creating the need for novel medical solutions supported by non-prescription supplements.

Disease Prevention

Disease prevention promotes the health and wellbeing of animals. The decrease in sales of antibiotics has been partially replaced by an increase in vaccines and other prophylaxes alongside improved diagnostics.

Surgery

A core staple of all veterinary practices and key area of expertise and focus for the group.

Internal Medicine

Allergy and immunology, cardiology, endocrinology, haematology, gastroenterology, nephrology and oncology are specialist areas in a veterinary practice that require specialist products.

Dermatology

The canine atopic dermatitis market is forecast to have an impressive CAGR of 12.5% between 2019 and 2029 primarily driven by the growth of JAK inhibitors, new monoclonal antibody products and improved awareness and diagnoses[2].

Dental

Dental disease is very common in companion animals and it is estimated that 80% of dogs and 70% of cats develop gum disease by the age of three[3].

Our Competitive position

Animalcare is focused on providing an extensive range of trusted, high quality products in target therapeutic areas with high potential for growth in our home markets and through our international partners.

1. American College of Veterinary Surgeons
2. Canine Atopic Dermatitis Treatment Market – Future Market insights
3. Pet Oral Care products market – growth, trends and forecast (2020 – 2025), Mordor Intelligence

MARKET TRENDS

1.

The market for animal health is growing rapidly

We are focusing on the high growth areas of the market including dermatology, dental and disease prevention and moving away from declining and low margin areas.

Geographically we continue to expand our international partners network to take our products to new markets where we do not have the infrastructure or the brands to successfully enter the markets ourselves.

2.

Veterinary practice is changing and new stakeholders are becoming increasingly important

We continue to work closely with our key customer, the vet, to understand their environment and be responsive to the changes. Corporate accounts continue to expand across the continent and we leverage our strong European presence to offer European-wide solutions.

We have in-house experts such as specialist Equine vets, Key Account managers and experienced Animal health marketeers to align with the corporate structures and requirements while still focusing on and understanding the importance of the individual vet, especially in countries with low corporate account penetration such as Germany.

3.

Pet ownership is increasingly focused on pet health and wellbeing and new technologies are becoming available that prolong and increase quality of life

We continue to build on our heritage in the areas of surgery, dermatology and pain by adding the fast-growing area of disease prevention as one of our core focus areas. We expanded our existing pet health range by adding a novel gastro-intestinal product to the portfolio that already includes dental and joint supplements and continue to work on future developments or partnerships in this key area.

65.5 million
Number of dogs in the EU

19.4 million
Number of small mammals in the EU

75.3 million
Number of cats in the EU

10.6 million
Number of Equines in the EU

Geographic market

Europe is the second largest animal medicines market in the world and represents around one-third of the global market with a market value in 2019 estimated at just over €6.6bn, a 10% increase on 2018. While the total value of the industry is growing rapidly, the trends in the market remain constant.

80 million households in the EU are estimated to own at least one pet with 23% of households owning a cat and 25% owning a dog. There are more pet cats than dogs (75.3m versus 65.5m) with both cat and dog numbers stable.

Vaccines and parasiticides dominate the market and account for 61% of sales although parasiticides as a percentage of the total market have declined for the last five years while vaccines have increased over the same time period and are now the largest area of the market. The market share of antibiotics continues to drop as governments and consumers continued pressure to cut their use and find alternative solutions.

Pan European corporate vet practices continue to expand geographically acquiring practices in new countries including Belgium, France, Ireland and Italy in 2019. Wholesalers are consolidating or changing their business models with some repositioning themselves as technology companies while others are introducing larger ranges of own label products and competing with their historical customer base.

Read about our **Business Model** on page 08

4.

Diagnostic and digital technology are increasing

We are experienced in the use of technology for pet reunification through our Microchip and Identibase business in the UK and are continuing to develop this in line with the new technologies and to look for opportunities to expand in other countries and fully utilise our database.

The diagnostic market is forecast to grow at 8.8% compound annual growth rate (CAGR) from now until 2023 creating a $4bn market. The integration of internet of things (IoT) in pet wearables is expected to have a significant effect on medical treatments and diagnosis of medical problems and contribute to a forecast CAGR of 14.3% for pet wearables up until 2027.

5.

Changes in the use of antibiotics

Sales of antibiotics have dropped from 17.0% of the total European market in 2012 to just 12.2% in 2019 and we have reduced our focus on our antibiotics range accordingly.

OUR 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

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.

We have strong knowledge of the Companion Animal, Equine and Farm Animal markets in which we operate and the regulations that govern them.

The relationships with the individual vets and veterinary groups that are our core customers are key and our sales force has excellent experience and knowledge of their markets and products to support the needs of these customers.

Animalcare operates a portfolio of over 300 brands with particular strengths in our core areas of pain management, dental, dermatology, disease prevention, surgery and microchipping.

Critical to our future growth is the further development of our pipeline.

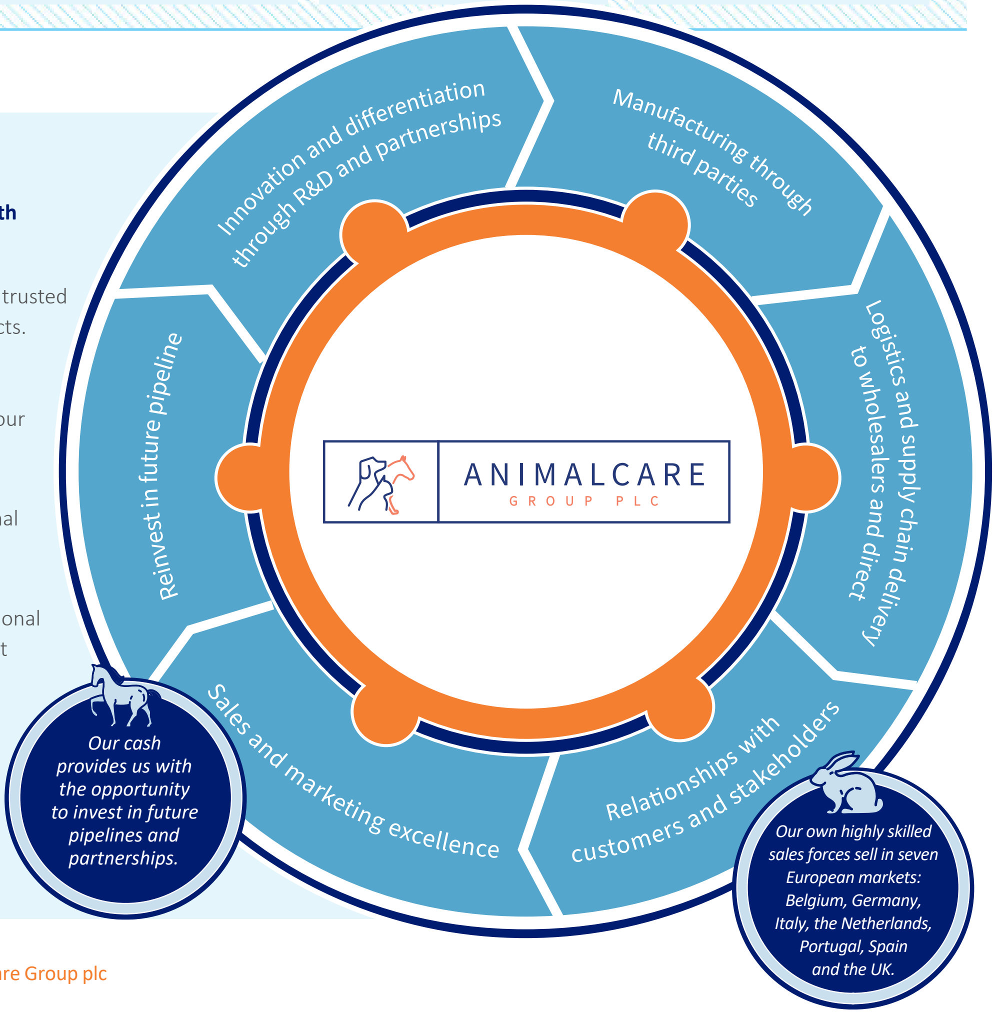
Our strong financial platform enables us to increase investment and leverage our stronger base to deliver future growth and value to our shareholders.

Our key activities

This diagram represents how our core activities work together to create sustainable profitable growth of Animalcare.

- We develop and commercialise trusted pharmaceutical and OTC products. These products are developed in-house, acquired from other companies or in-licensed from our partners.
- We also seek to commercialise our own products in international markets through best-in-class collaborations.
- We manage a complex international supply chain, including specialist veterinary wholesalers

Through our close relationship with stakeholders and our sales and marketing capabilities we are able to sell products to veterinary practices and veterinary groups.



How we create value

The Board recognises that the long-term success of the Group is enhanced by positive relationships with all stakeholders, including employees, customers, suppliers and shareholders.

Generating strong cash flow enables us to invest in the business to grow, manage our debt, and deliver returns to our shareholders. Trust from our shareholders is key to delivering our strategy as access to capital will be important to the long-term performance of our business.

Read about **Our Stakeholders** on **page 10**

Value created for stakeholders

Employees

Employees benefit from the ability to improve their skills and work in a challenging and expanding organisation.

Customers

With an agile business model and close customer relationships, Animalcare seeks to provide a choice of innovative and trusted products and services to support veterinary professionals and other stakeholders to ensure we are aligned with their changing needs.

Suppliers

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

Shareholders

Through delivering our strategy, we aim to consistently deliver a strong financial performance for our shareholders and generate attractive returns over the long term.

Our competitive advantages underpin our business

1. **Our agility, expertise and local knowledge means we know our markets and are able to adapt to evolving needs.**
2. **We have developed trusted relationships with individual veterinary practices and larger veterinary groups.**
3. **We are increasingly focused on differentiated therapies that can meet the needs of our customers while delivering sustainable above-sector growth.**
4. **We are positioned as a preferred international partner for companies that want to develop new treatments or bring their innovative products into the European market place.**

Read about **Delivering our strategy** on **page 12**

OUR STAKEHOLDERS

S172 Statement

The Directors are well aware of their duty under Section 172(1) of the Company 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 have regard (amongst other matters) to:

- 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.

The following disclosure describes how the Directors have had regard to the matters set out in Section 172(1)(a) to (f) and forms the Directors' statement under section 414CZA of The Companies Act 2006.

Our key stakeholders and how we engage with them

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

Our 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. 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

- Employee engagement surveys
- Board meetings held at business units
- Enhanced internal communications via our 'People Portal'
- Leadership Development programmes

Customers

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
- Relationship
- Compliance
- Range of products

How we engage

- Meetings/maintaining close relationships with veterinary practices and veterinary groups
- Participation in industry forums and events
- Product launch events
- Social media and commercial websites
- Contract negotiation, implementation and management of ongoing relationships
- Customer-specific events

Suppliers & partners

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. 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

- Meetings with specialist veterinary wholesalers and distributors
- Meetings with key suppliers that represent 70% of purchasing spend
- Supplier forums and networking meetings
- Quality Management Reviews

Shareholders

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

- Regular market updates
- Investor roadshows, meetings and presentations
- Dedicated investor section on corporate website
- Shareholder consultations
- Annual reports
- Annual General Meetings

Communities and Environment

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

Stakeholder key interests

- Sustainability
- Animal welfare
- Community

How we engage

- Support local and national charity partnerships
- Employee-matched fundraising
- Member of animal health trade associations
- More sustainable business practices including reducing travel

Key Board decisions

The Board considers the following to be some of the key discussions, decisions and considerations it has made during the year to 31 December 2019:

	Board discussions and decisions	Considerations
February	The Board reviewed the results of the employee engagement survey and a number of initiatives to be carried out in response to the results of the survey.	Consideration of the feedback provided by employees who completed the survey and taking appropriate actions 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.
April	The Board received and considered a report of a review of supply chain processes which outlined opportunities to improve customer service and inventory management.	The need to review and continually improve the effectiveness of the Group's supply chain, from key suppliers to end customers, for the benefit of our stakeholders.
	The Board approved the release of the 2018 Full Year Results.	The need to provide transparent and accurate information to the market.
	The Board agreed the final dividend for 2018 of 2.4p per share.	The need to address the interests of shareholders in the context of the long-term, whilst maintaining appropriate levels of reserves to run the business effectively.
June	The Board considered Board composition following the resignation of a Non-Executive Director.	The need to ensure an appropriate balance between Executive and Non-Executive Directors.
	The Board reviewed its internal Board evaluation.	The need to ensure that the Board remained a high performing team for the benefit of our stakeholders.
September	The Board approved release of the Interim Results for the six months ended 30th June 2019.	The need to provide transparent and accurate information to the market.
	The Board agreed the interim dividend of 2p per share.	The need to address the interests of shareholders in the context of the long-term, whilst maintaining appropriate levels of reserves to run the business effectively.
December	The Board considered the Budget for FY 2020.	The need to consider all shareholders so that they all benefit from the successful delivery of our plan.
	The Board received a report on new product opportunities.	The need to consider growth opportunities for the long term success of the company.

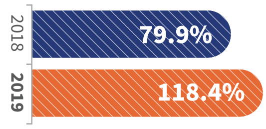
DELIVERING OUR STRATEGY

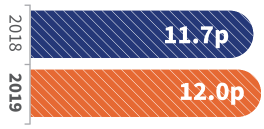
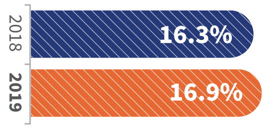
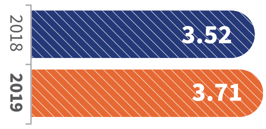
We are pursuing a clear strategy to deliver our goal of above market growth in three to five years and become a leading player in the European animal health market. During 2019 we have made significant progress in all areas, delivering our short-term goals and building our organisation for the future.

Key Goals	Key Initiatives	Progress	2020 Priorities
Strong finances Financial sustainability through revenue growth, cash conversion, EBITDA margin and EPS growth			
Revenue growth	• Focus on therapeutic areas with highest potential • Leverage strengths across all markets in which we operate • Maximise opportunities in high growth markets through partnerships or selective acquisition	• New product sales of £1.8m which partly compensated supply issues that lead to the overall revenue decline • Double digit growth in key brands such as Danilon and Orozyme • Tail products identified and actions in place	• Scale up of small, fast-growing operations • Spain and UK return to growth • Plan for key 2021 launches including novel pain product • Active BD programme to develop robust and balanced portfolio
Cash conversion and net debt	• Optimise inventory • Tax efficiency • Debt reduction	• Significant increase in underlying cash conversion to 118.4% • Net debt to underlying EBITDA leverage ratio reduced to 1.4 times	• Maintain strong cash focus to provide investment for revenue growth • Maintain EBITDA leverage ratio in the range of 1 to 2 times
Underlying EBITDA margin and EPS growth	• Focus on higher margin products • Operating efficiency and leverage	• Tail products identified and actions in place • Adjusted EBITDA margin 16.9% • EPS growth of 2.6%	• Maintain SG&A costs as a % of sales in line with 2019 – reinvesting efficiency gains for growth
Key Leadership Organisation for success; the right people, capabilities and behaviours			
Attract, retain and develop talented people	• Build leadership capabilities • Align reward to performance • Unified culture • Drive effective communication and collaboration • Improve diversity	• Established Values and Behaviours • Strengthened our Business Development and Sales and Marketing capabilities • Second group-wide employee engagement survey complete • New bonus structure and LTIP for Leadership Team	• Implement actions from employee engagement surveys • Regular leadership development • Build Talent Management programme

Key Goals	Key Initiatives	Progress	2020 Priorities
Growth portfolio Focussed portfolio in key therapy areas in growing markets			
Focus on existing core brands that generate sustainable growth and margin	• 80% of revenue from the top 20 products • Build on capabilities in core therapeutic areas	• Tail products identified and actions in place • Strengthened our Sales and Marketing capabilities • Double digit growth in key brands such as Danilon and Orozyme • New product sales of £1.8m	• Focus on growth in companion animals and equine, while maintaining our existing presence in the production animal segment • Life cycle management of key brands including potential manufacturing transfers • Develop international partners strategy and plan • New product launch excellence
Business development Work with partners to build a portfolio and pipeline of products that meet our criteria for growth			
In-licence or acquire products and develop network partnerships	• In-licence and acquire innovative products • Be selected partner for companies selling into Europe • Build ongoing partnerships in growing market globally	• Two new contracts signed to relaunch Adequan in Europe and distribution of Procanicare	Focus on developing leads in three categories: • Near Term – products which will be accretive in the next 12-18 months. These are likely to be distribution deals which complement our existing portfolio • Medium Term – more innovative products which may require some further development • Long Term – new products we will develop and launch as our own which will have the largest sales potential and geographic coverage • Identibase optimisation • Continue to build Business Development and in-licensing capabilities
Innovative pipeline Building a pipeline of novel and differentiated products			
Launch new products on time and develop differentiated and innovative products for the future	• Prioritise and accelerate in-house R&D to deliver a flow of new products in future years	• Four new products launched during 2019- Cortacare, Butazocare, Doxycare and Metrocare • Defined new R&D investment criteria – ceasing projects that did not meet these criteria	• Regulatory filing of novel pain product (submitted January 2020) • Planned regulatory approval for one new product – completing the roll out of the branded generics pipeline • Initiate new pipeline projects for future growth from any source • Portfolio prioritisation established to drive robust short, mid and longer-term pipeline

OUR KEY PERFORMANCE INDICATORS (KPIs)

Strategic Driver	KPI & Definition	Why we measure this	Commentary on performance
Strong Finances	**Revenue Growth** Organic revenue growth including new products versus prior year revenue, which excludes the impact of acquisitions and disposals.	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.	 Revenue for the year from continuing operations was £71.1m (2018: £72.5m) a decline of 1.9% (1.0% decline at CER). Sales from new products launched in the year was £1.8m (2018: £2.4m).
	Underlying cash conversion Cash generated from operations as a percentage of underlying EBITDA.	Our quality of earnings is reflected in our ability to turn underlying EBITDA in to cash, important to generate the funds we need to invest in growth.	 Underlying cash conversion improved significantly in the year due to focus on inventory reduction and lower cash taxes.

Strategic Driver	KPI & Definition	Why we measure this	Commentary on performance
Strong Finances	**Basic Underlying Earnings per share ("EPS")** Underlying profit after tax divided by the weighted average number of shares.	Underlying EPS is a key indicator of our performance and the return we generate for our stakeholders.	 Underlying EPS increased by 2.6% in the year driven by a 1.3% increase in underlying profit before tax and a 0.8% decrease in the effective tax rate.
	Underlying EBITDA margin (adjusted) Underlying EBITDA as a percentage of sales, adjusted for the impact of IFR16.	This is a measure of the operating efficiency of the Group with focus on translation of sales growth to profit.	 Underlying EBITDA margin, measured on a comparable IAS17 basis, has strengthened by 0.6%, reflecting the higher margin sales mix and maintained focus on operational leverage.
Key Leadership	**Employee engagement** A measure of employee engagement based on the well-established Gallup Q12 index.	Employee engagement surveys enable comparison between the Group and other companies. The primary purpose of the survey is to provide guidance to the Leadership Team about how they can improve employee engagement.	 Our 2019 Employee Engagement results show an overall higher score vs 2018. The highest score is on employee recognition. This score reflects the implementation of our purpose & core values and the introduction of a process of regular feedback/121s across our whole business. Our key focus areas for 2020 include Performance Management & Development and the roll out of a Talent Management program across the business.

CHIEF EXECUTIVE OFFICER'S REVIEW

> ***"2019 was a significant step forwards, delivering our short-term goals, creating a strong platform for growth and building our organisation for the future."***

Jennifer Winter
Chief Executive Officer

Read about our **Group at a glance** on **page 04**

Read about our **Strategy** on **page 12**

Read about our **Financial Review** on **page 18**

In 2019 we set ourselves five clear strategic priorities to deliver our goal of above market growth in three to five years. We have made significant progress against these objectives.

Establishing a strong financial platform so we can invest in our future

Establishing a strong financial platform is at the heart of our strategy and we set ourselves the target of identifying opportunities for revenue growth, improving cash conversion and reducing debt. We are pleased with our progress, recognising that our future growth is dependent on a solid financial base and efficient use of cash to invest in the business. In the Companion Animal segment our revenue grew by 1.0% versus 2018, with growth from new and recently launched products offset by the impact of supply interruptions by third party manufacturers, including one of our most significant Companion Animal products, Isoflurane, which impacted our revenue by £1.5m. In Production Animals, we continue to see an expected decline, which was 9.4% in 2019 (2018: 15.0%), primarily driven by the global focus on reducing the use of antibiotics in this segment.

The right people, capabilities and behaviours for success

At Animalcare we are creating a high performing business driven by a skilled, committed team unified by a shared sense of purpose and common culture.

We have continued to strengthen our leadership team and our capabilities across the organisation. Compensation is now aligned with performance across the leadership team, with the implementation of a new bonus structure based on revenue and EBITDA targets and a new long-term incentive plan ('LTIP') from June 2019. We have actively built capabilities through internal and external recruitment and have strengthened our Business Development and Sales and Marketing capabilities to drive commercial excellence. We have established the values for the organisation and rolled out group-wide policies to strengthen them, creating solid foundations for sustainable growth.

As the veterinary market evolves with the introduction of corporate ownership of practices, we are continuing to build the right team and capabilities to work with this emerging stakeholder group across Europe. The pace of change in veterinary practice has increased and we continue to work closely with veterinary professionals and other stakeholders to ensure we are aligned with their changing needs

Prioritising our existing portfolio for growth

The Animalcare portfolio of products was broad and fragmented. This is being addressed, and in 2019 we made good progress towards our goal of reducing the fragmentation and generating 80% of revenue from the top 20 products. We successfully reduced the number of low revenue products and increased the sales and marketing activities on the largest products with highest margins that are sustainable for the future. We will maintain this focus and we have already seen sustained growth in some of our top five brands, including Danilon and Orozyme.

From a market segment perspective, our strategy is to grow in Companion Animals and Equine and maintain our existing and important presence in Production Animals. To support these objectives, we are focusing our future investment and research to achieve our growth ambitions in Companion Animal and Equine products, while sustaining our profitable Production Animal business in the key markets through both our own channels and distribution products.

Companion Animals

Growth from newly introduced products contributed £1.5m of sales. The internal pipeline progressed with four new product launches: Cortacare, Butazocare, Doxycare and Metrocare. The sales benefit from these will be observable in 2020. In addition, post period end we gained regulatory approval for one product and expect a further approval late in 2020.

These recent and expected launches will complete the roll-out of the branded generics pipeline.

Equine

We have increased our focus on the Equine segment and while small, it grew at 2.8% as a result. Danilon is a leading product for us in this segment and sales increased by 10.0% versus 2018. We intend to further strengthen our presence in this important growth area.

Production Animals

The decline of antibiotics in Production Animals has been evident in the market for some time now, driven by the link between use of antibiotics in these animals and the increase in resistant bacteria. Governments are closely monitoring the situation and have established targets. Our antibiotic portfolio includes some products that are still recommended and we will continue to support these as long as they are viable. However the rest of this portfolio will continue to decline in line with the market as strategically we reduce focus on these products.

Building our pipeline of differentiated products

Critical to our future growth is the further development of our pipeline to achieve our goal of generating 80% of our revenue from novel and differentiated products from external and internal sources. With this objective in mind we have strengthened our business development team and are engaging in discussions with potential partners to in-licence and co-develop exciting and new products. In 2019 we completed significant distribution deals with Vetcare for Procanicare (the first "For Dogs, From Dogs" GI support) and with American Regent for the European rights to sell Adequan (an intramuscular treatment of lameness due to degenerative aseptic joint disease in horses).

Our internal pipeline also progressed significantly with the completion of the clinical studies for Enflicoxib (E-6087), a novel product developed internally for the treatment of pain in dogs. This product was submitted to the European regulatory authority in January 2020 for a planned launch in 2021.

We have defined the criteria for R&D investment to align with our strategy in Companion Animals and Equine and in 2019 we ceased development of three assets that did not meet these criteria, for either technical or commercial reasons.

COVID-19

The most significant post-period event is, of course, the COVID-19 pandemic. While it's too early to accurately assess the economic impact on the Group, given the social restrictions that have affected most of our European markets, it is inevitable that the animal health sector will experience significant disruption in 2020. Our strong trading performance over the first three months were followed by the expected downturn in demand from the second quarter. The timing and extent of the recovery is harder to predict though I'm sure that the driver of that recovery will be vets returning to normal working.

The primary concern of management and the Board will always be the safety and wellbeing of our people, their families and the communities in which we live and work. The pandemic throws this responsibility into sharper relief. We have adopted a number of measures, including adherence to official guidelines. A switch to home working, for example, was made possible by our common, cloud-based IT platform and rapidly became the norm across the Group. Operationally, we have focused on supporting veterinary professionals as their needs and priorities evolve through the crisis. With this in mind we are working closely with suppliers to secure the availability of key products.

As our Chairman points out, we entered 2020 in a strong financial position, thanks in part to our solid performance in 2019. To maintain that strength, we have taken a number of steps, such as cutting overheads, careful management of inventory and a capital expenditure freeze for all but key development programmes and manufacturing transfers. This will limit cash outflows, thereby protecting our operational resilience and ability to pursue growth opportunities.

This pandemic will pass and we will return to some form of new normality. When that happens I believe Animalcare will be well placed to succeed through a combination of financial strength, knowledge of our markets and close relationships with our customers, operational agility and a clear strategic direction.

Summary and outlook

I am pleased with the progress we made in 2019, especially the strengthening of our financial position, creating a strong platform for growth. We have also made good progress in ensuring that we have the right capabilities in place for the future. The regulatory submission for Enflicoxib represents a major step forwards, as does the two new contracts for Adequan and Procanicare. Notwithstanding the effect of the COVID-19 pandemic, I am looking forward to leveraging our stronger base to drive growth in the coming years.

Jennifer Winter
Chief Executive Officer

CHIEF FINANCIAL OFFICER'S REVIEW

"The focus for the year was creating a strong financial platform for growth. We are particularly pleased with the improvement in margins and cash conversion"

Chris Brewster
Chief Financial Officer

Read about our **Group at a glance** on **page 04**

Read about our **Strategy** on **page 12**

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 exclude non underlying items, provides a clearer understanding 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.

The Group adopted IFRS 16 'Leases' on 1 January 2019, the impact of which is set out in note 22. Comparative financial measures have not been restated. Commentary has been made upon both an IFRS16 and IAS17 (the previous accounting standard) basis to allow meaningful comparison to prior periods.

Overview of Underlying financial results – Continuing Operations

	2019 £'000	2018 £'000	% Change at AER %
Revenue	**71,124**	72,470	(1.9%)
Gross Profit	**36,972**	37,339	(1.0%)
Gross Margin %	**52.0%**	51.5%	0.5%
Underlying Operating Profit	**9,462**	9,604	(1.5%)
Underlying EBITDA	**13,137**	11,798	11.3%
Underlying EBITDA margin %	**18.5%**	16.3%	2.2%
Underlying Basic EPS (p)	**12.0p**	11.7p	2.6%

Revenue for the year from continuing operations was £71.1m (2018: £72.5m) a decline of 1.9% (1.0% decline at CER). Revenue by product category is shown in the table below:

	2019 £'000	2018 (restated*) £'000	% Change at AER %
Companion Animals	**46,464**	46,018	1.0%
Production Animals	**18,844**	20,793	(9.4%)
Equine & other	**5,816**	5,659	2.8%
Total	**71,124**	72,470	(1.9%)

*Restated as per note 2, basis of preparation

Revenue at ***£71.1m***

Companion animals revenue represents ***65.3%*** *of total sales*

Underlying EBITDA was ***£13.1m***

Underlying basis EPS growth of ***2.6%***

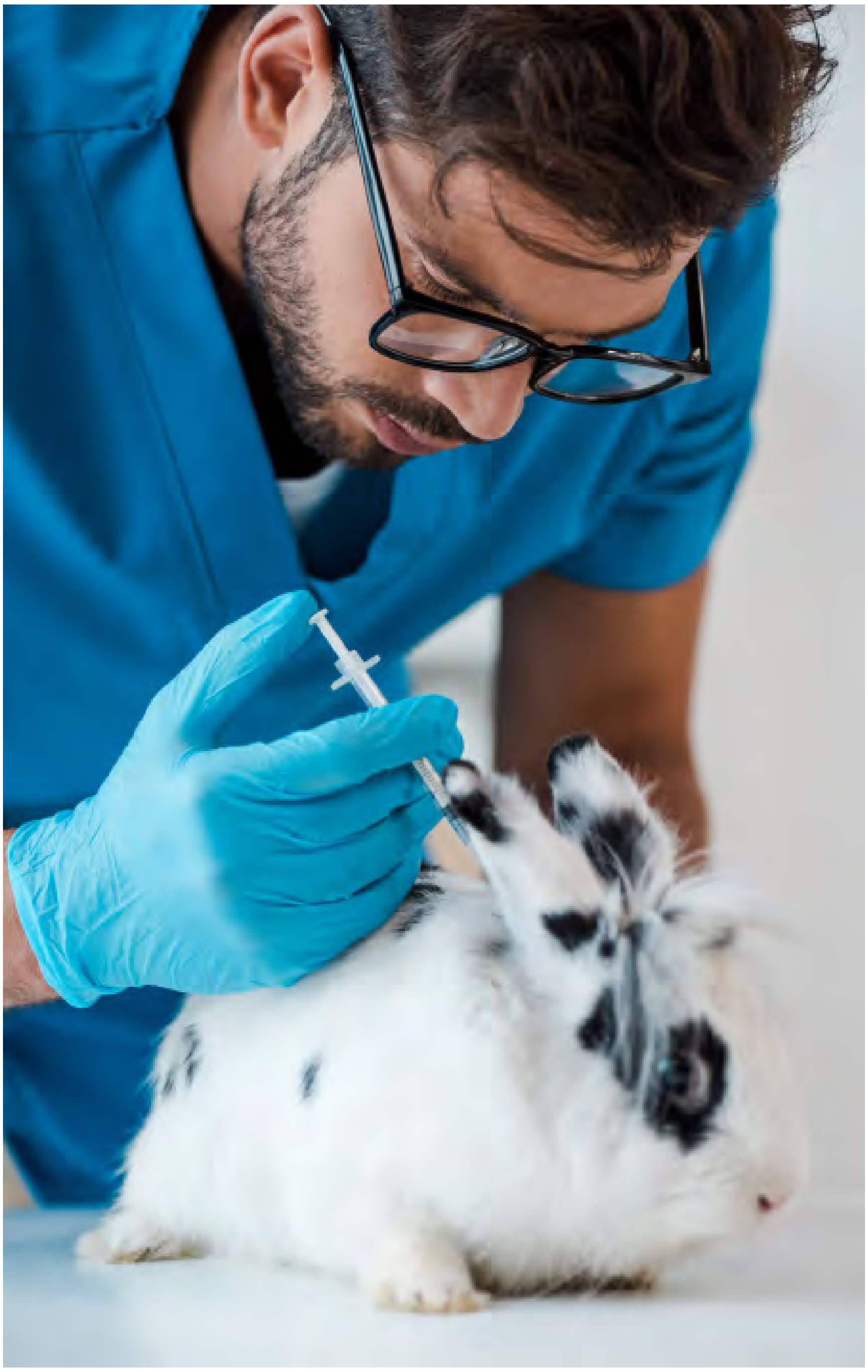
Companion Animals revenue increased by 1.0% to £46.4m. Growth from new product launches and annualised sales of products launched in 2018 partly compensated for previously reported supply issues with certain contract manufacturers, which impacted sales by £1.5m versus prior year. While a number of these supply challenges have been mitigated post year end, work continues to resolve the remaining specific anaesthesia supply issue where the Active Pharamaceutical Ingredient (API) source was moved to China, including the potential transfer of manufacture.

Production Animals revenue declined by 9.4% on prior year to £18.8m primarily driven by the £1.0m (15.2%) lower demand for antibiotics and distributor destocking in Spain. Equine and other sales increased by 2.8% to £5.8m due to growth within our existing export portfolio.

Underlying EBITDA increased by 11.3% to £13.1m (2018: £11.8m). However on a comparable IAS17 basis, adjusted underlying EBITDA was £12.0m, 1.7% higher than prior year. On an adjusted basis, EBITDA margin at 16.9% has strengthened by 0.6% versus 2018, reflecting the higher margin sales mix, observed in our gross margin improvement, together with our maintained focus on operational leverage. As a result, notwithstanding the revenue decline noted earlier, adjusted SG&A expenses as a percentage of revenue at 35.2% remain in line with prior year (2018: 35.2%).

The underlying effective tax rate was 21.5% (2018: 22.3%) primarily reflecting our tax planning initiatives to optimise research and development tax credits, and utilisation of tax losses.

Reflecting the points noted above, underlying basic EPS increased by 2.6% to 12.0 pence (2018: 11.7 pence).



CHIEF FINANCIAL OFFICER'S REVIEW
CONTINUED

Cash conversion at ***118.4%*** *of underlying EBITDA*

Overview of reported financial results

Reported Group loss after tax for the year (after accounting for the non-underlying items shown in the table and discussed below) was £1.3m (2018: £1.0m). The reported basic loss per share increased to 2.2 pence (2018: 1.7 pence).

	2019 Underlying results £'000	Amortisation and impairment of intangibles £'000	Acquisition, restructuring, integration and other costs £'000	**2019 Reported results £'000**	2018 Reported results £'000
Revenue	**71,124**	–	–	**71,124**	72,470
Gross Profit	**36,972**	–	–	**36,972**	37,339
Selling, general and administrative expenses	**(24,585)**	(4,771)	–	**(29,356)**	(29,101)
Research and development expenses	**(2,922)**	(1,171)	–	**(4,093)**	(4,762)
Net other operating expenses	**(3)**	(1,619)	(3,192)	**(4,814)**	(3,259)
Operating profit/(loss)	**9,462**	(7,561)	(3,192)	**(1,291)**	217
Net finance expenses	**(317)**	–	–	**(317)**	(574)
Profit/(loss) before tax	**9,145**	(7,561)	(3,192)	**(1,608)**	(357)
Taxation	**(1,966)**	1,479	757	**270**	135
Profit/(loss) after tax	**7,179**	(6,082)	(2,435)	**(1,338)**	(222)
Loss/(profit) from discontinued operations	**–**	–	–	**–**	(776)
Profit/(loss) for the year	**7,179**	(6,082)	(2,435)	**(1,338)**	(998)
Basic EPS (p)	**12.0p**			**(2.2p)**	(1.7p)

Non-underlying items totalling £10.8m (2018: £9.4m) relating to profit before tax have been incurred in the year, as set out in note 5. These principally comprise:

1. Amortisation and impairment of acquisition related intangibles of £7.6m (2018: £6.6m). This charge primarily comprises amortisation in relation to the reverse acquisition of Ecuphar NV and previous acquisitions made by Ecuphar NV. The increase versus prior year reflects the non-cash impairment of three projects within the acquired product development pipeline at a fair value of £1.5m that failed to meet technical, competitive or commercial milestones.
2. Restructuring costs of £1.8m (2018: £1.2m) largely relating to the R&D and Technical & Regulatory team centralisation and associated costs of implementing headcount reduction in the UK and Spain at a cost of £1.4m.
3. Post-acquisition and integration costs of £0.6m (2018: £0.5m). This includes the integration costs associated with the acquisition of Ecuphar NV, including manufacturing transfer costs as we work towards simplifying our supply chain.
4. Brexit-related costs of £0.2m (2018: £nil) – this represents regulatory transfer and other supply-chain costs incurred in advance of Brexit.

Dividends

An interim dividend of 2.0 pence per share was paid in November 2019. On 25 March 2020, the Group announced that payment of the final dividend had been deferred with the aim of supporting our financial strength and providing a platform to continue progressing opportunities during the global COVID-19 pandemic. This decision by the Board, which had the effect of retaining an additional approximately £1.4m in cash, will be reviewed later in 2020. At that point, the Board will consider what actions are in the best interests of shareholders. More broadly, 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

The Group committed to improving its cash performance and reducing net debt during 2019, a key component of our 'strong finances' strategic objective, in order to provide the funds we need to invest in growth. In line with the first objective, the Group has significantly improved its underlying cash conversion to 118.4% versus 79.9% achieved in 2018 as set out in the table below:

	2019 £'000	2018 £'000
Underlying EBITDA	13,137	11,798
Net cash flow from operations	13,071	7,430
Non-underlying items	2,485	1,993
Underlying net cash flow from operations	15,556	9,423
Cash conversion %	118.4%	79.9%

Net cash flow generated by our operations increased to £13.1m (2018: £7.4m). Working capital decreased by £1.7m, largely driven by the £2.5m reduction in our inventory levels, well ahead of the planned £2.0m reduction by the end of 2020. We expect inventories to increase by approximately £1.5m during 2020 due to strategic stock build of three key brands as part of their lifecycle management. Net cash tax income was £0.1m versus an outflow of £2.2m in 2018 mainly due to a combination of phasing of payments in Spain, increased cash receipts in respect of R&D tax credits and the settlement of prior year taxes in Belgium during 2018. It is anticipated that cash taxes will be circa £0.5m in 2020. Non-underlying cash items principally relate to the restructuring costs and post-acquisition and integration costs as noted in the overview of reported results.

Net debt (before recognition of IFRS16 lease liabilities of £1.9m) reduced by £7.7m to £15.9m as at 31 December 2019, the reduction largely driven by the higher cash conversion noted above.

CHIEF FINANCIAL OFFICER'S REVIEW
CONTINUED

	£'000
Net debt at 1 January 2019	**(23,588)**
Net cash generated from operations	13,071
Net capital expenditure	(2,391)
Net finance expenses	(1,696)
Dividends paid	(2,643)
Foreign exchange on cash and borrowings	1,336
Other cash movements	35
Net debt excluding IFRS16 lease liabilities at 31 December 2019	**(15,876)**
Recognition of lease liabilities	(1,936)
Net debt at 31 December 2019	**(17,812)**

Net capital expenditure of £2.4m (2018: £4.8m) largely comprises investment in our product development pipeline of £1.8m, the most significant being the completion of the clinical studies for Enflicoxib (E-6087) which was submitted to the European Regulatory authority in January 2020 for a planned launch during 2021. Regulatory approval for one new product is expected later in 2020, completing the roll out of the branded generics pipeline. The balance of expenditure largely relates to continuing investment in our IT infrastructure to deliver our objective of common platforms across the Group.

The net debt to underlying EBITDA leverage ratio was 1.4 times (2018: 2.0 times) versus the bank covenant of 3.5 times. At 31 December 2019, total facilities were £43.8m, of which £20.7m, net of cash balances, was utilised, leaving headroom of £24.6m.

Going Concern

Banking Facilities and Covenants

At 31 December 2019, the Group's financing arrangements consisted of a committed revolving credit facility of €41.5m, a €10m acquisition line, which cannot be utilised to fund our operations, and €4.1m investment loans. All facilities mature in March 2022.

The facilities are 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
- Solvency (total assets less goodwill/total equity less goodwill) greater than 25%

As at 31 December 2019, all covenant requirements were met with significant headroom across all three measures.

As at 30 April 2020, the net debt to underlying EBITDA ratio was approximately 1.3 times (31 December 2019: 1.4 times). Headroom on the banking facilities, including cash on balance sheet, was £25.8m (31 December 2019: £24.6m)

COVID-19 Scenario Analysis

The Group entered the pandemic period in a strong financial position. In recent weeks we have seen an inevitable impact on the markets where we operate and a resulting downturn in demand starting in the second quarter.

While it's too early to accurately assess the economic impact on the Group, the uncertain future impact of COVID-19 has been considered as part of the Group's adoption of the going concern basis.

The Group has run a series of future trading scenarios to June 2021 to factor in a range of downside revenue estimates with mitigating actions on cost and cash flow. On revenue we modelled a rolling 12-month downturn of between 13% and 22% compared to 2019, with the most significant impact during a quarter in which lockdown measures are enforced. In the downside scenarios, a prolonged lockdown of six months, or a second wave mirroring Q2 2020, both with subsequent slower recovery, was considered.

To maintain our operational and financial resilience, we have already taken a number of steps to reduce or defer costs to align with revenue, carefully manage inventory in light of demand shifts and implement a capital expenditure freeze for all but essential projects, including key development programmes and manufacturing transfers.

As announced in our trading update of 25 March 2020, the Board deferred the payment of the final dividend. This decision will be reviewed later in the year once we have more clarity about the ongoing effects of the pandemic on our business. At that point the Board will consider what actions are in the best interests of all shareholders.

The results of these scenarios indicate that the Group would operate well within its committed revolving credit facility of €41.5m and maintain headroom against all covenant obligations throughout the period to June 2021. The Directors do, however, note the inherent uncertainty as to the future effect of COVID-19. A potential more prolonged impact outside of those modelled in our future trading scenarios could result in a potential breach of the leverage covenant. In the event that a covenant test is breached, we would need to work with our banking syndicate to obtain a covenant relaxation or waiver in order for the borrowing facilities to continue to be available. The Directors note that this could represent a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. However, the Directors are confident that they would be able to obtain this covenant waiver if required and, therefore, the Directors have a reasonable expectation that the Group will have sufficient cash flow and available resources to continue operating for at least 12 months from the approval date of these Financial Statements. Accordingly, the Directors continue to adopt the going concern basis of preparation.

Summary and outlook

We have made strong progress against our strategic objective of strengthening our financial base and are pleased to report a significant improvement in cash performance, improving operating margins and substantial reduction in net debt versus 2018. Our business is becoming more agile and efficient, giving us confidence to increase investment to leverage our stronger base to deliver future growth.

In reflecting on the advances made in 2019, we could not have anticipated the economic uncertainty that would be caused by COVID-19. Performance over the first three months of the year was strong, helped by customer stockpiling ahead of the pandemic. The anticipated downturn in demand became visible from April, particularly in the companion animal sector where government measures restricted both veterinary practice and the mobility of owners. By contrast, the production animal sector has been relatively resilient, partially offsetting the rate of decline in demand. Forecasting the economic impact across 2020 with any accuracy is difficult, but data from countries that have been operating with less restrictions through the pandemic, such as Germany, clearly show that the driver of recovery will be vets returning to normal working patterns. We have noted the early start of a return in some other countries more recently.

As announced in our trading update of 25 March 2020, we have taken steps to protect our employees as we continue to support our customers during this period. We've also moved quickly to preserve cash and to re-align SG&A spending to reflect the rapidly changing trading environment, maintaining the Group's financial resilience and preserving the ability to invest as we progress towards a recovery. At 30 April 2020, both net debt and the net debt to underlying EBITDA leverage ratio were at similar levels to 31 December 2019.

Whatever challenges 2020 presents, we are confident that the Group's strong finances and its focus on a clear growth strategy mean Animalcare will continue to be well placed to take advantage of opportunities in a market with attractive fundamentals.

Chris Brewster
Chief Financial Officer

OUR PRINCIPAL RISKS

Risk Management Framework

Accountability for reviewing and monitoring

The Board

The Board of Directors has overall responsibility for the Group's risk appetite and risk management strategy. The objective: to foster a culture of risk management to effectively execute our strategy.

Audit & Risk committee

In accordance with our governance practices, oversight of risk management is undertaken by the Audit Committee which supports the Board by monitoring the Group's risk management framework and internal control systems.

Management & group functions

Operational management are responsible for ensuring that the day-to-day risk management controls, policies and procedures are implemented and monitored. Group functions such as legal, IT, finance, supply chain and quality reinforce the risk management process by providing guidance, support and challenge to management.

Responsibility for implementaion

The most significant risk faced by the Group is the economic disruption caused by the post-year end COVID-19 pandemic. Our response to the pandemic is discussed in the Chairman's statement and the Chief Executive Officer's review. The implications for the Group are included in the Chief Financial Officer's review, note 3 Summary of Significant Accounting Policies and note 28 Events after balance sheet date. This risk is managed by the Board as a whole and is the subject of, at least, weekly meetings.

The table describes the current principal risks and uncertainties facing the Group. In addition to summarising the material risks and uncertainties, the table below gives examples of how we mitigate those risks.

Risk	Link to strategy	Potential impact	Mitigation	Risk Level	Trend
Market risk In certain territories the veterinary market continues to see the emergence and growth of corporate customers and buying groups who are looking for value from the products and services we provide.		The emergence and growth of corporate customers and buying groups represents an opportunity for sales volume growth but may result in lower margins.	We continue to develop and strengthen our sales and marketing teams in respect of key account support to better serve our changing customer base, both on a national and, in future, a European basis	M	↑
Competitor 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 20 products include a mix of some strong brands and well-established mature products, for which the market may be attractive to competitors.		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.	We are increasing focus on lifecycle 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.	M	↑
Supply chain 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.		Any disruption, interruption or failure of supply from our third-party suppliers whether COVID-19 related or otherwise, could result in lost sales and damage the Group's reputation with its customers. Manufacturing transfers to resolve longer-term supply issues may require additional regulatory approvals, which could result in additional costs and/or delays.	The Group has placed more focus on risk management during 2019. An initial risk assessment has been completed for our own key products and will be completed during 2020 for those on distribution. Actions are underway to simplify our supply chain. We continue to hold safety stock of key products. We have engaged with our [key suppliers/supply base] in order to understand the resilience of our supply chain to potential COVID-19 issues and to collaborate with them to mitigate issues where we can. To this end we have requested all our suppliers to advise us of their Covid-19 risk management plan.	H	↔

Strategic links

Strong finances · Key leadership · Growth Portfolio · Business Development · Innovative Pipeline

Risk Key

M Medium · H High

Trend Key

Up · Flat · Down

OUR PRINCIPAL RISKS

Risk	Link to strategy	Potential impact	Mitigation	Risk Level	Trend
Portfolio risk Approximately 50% of the Group's revenues are derived from products sourced from our distribution partners, which are heavily driven by the associated contractual terms.		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, resulting in lost sales. Distribution may cease due to change of control of the contracting parties.	A New Product Opportunity process was introduced during 2019 to provide robust commercial and contractual assessment of new partner products. Low quality distribution products are subject to the portfolio prioritisation review. Significant contracts are being reviewed to assess and mitigate business continuity risks.	M	⟷
Product development risk Failure to successfully register and launch products from our pipeline. Projects that initially appear promising may be delayed or fail to meet expected clinical or commercial expectations or face delays in regulatory approval.		Significant delay or failure in launching a product from our own pipeline could adversely affect our ability to deliver revenue expectations. Failure of a development project would result in impairment of intangible assets.	Following the restructuring of the R&D and Technical & Regulatory teams, more robust pipeline monitoring processes have been introduced. 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 to establish a broader investment approach to launching new products other than from our own pipeline.	M	⟷
Regulatory 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.		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 transition may result in additional regulatory and quality control requirements and associated costs.	The Group Technical and Regulatory team have established systems and procedures to monitor and maintain compliance. Regular dialogue is maintained with relevant authorities in each country to ensure we maintain a thorough understanding of regulatory changes.	M	⟷

Risk	Link to strategy	Potential impact	Mitigation	Risk Level	Trend
Foreign Exchange Translation 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.		There may be variability in our reported results caused by significant fluctuations in the GBP:EUR exchange rate. This may impact our EBITDA leverage covenant depending on volatility and timing as the income statement and balance sheet may be translated at different rates.	We carry out a central review of foreign currency exposures and we assess of 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.	M	
People 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 and experienced individuals in key roles.		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.	We are creating a unified culture where Animalcare is a 'great place to work'. This includes: • Competitive rewards, career development, investment in training and skills • Regular remuneration benchmarking • Use of LTIPs for key senior management • Utilising high-quality contract staff to bridge short-term gaps in key resource areas.	M	
IT systems and cyber security risk **The Group relies heavily on information technology and key systems to support thebusiness.** **Risk of cyber-attacks and failure of our IT systems.**		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 availability of data. Failure to adequately protect customer (and others') data may result in a breach of GDPR legislation.	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 2020 we will invest in and update the application on which we run our Identibase business.	M	

Strategic links

Strong finances
Key leadership
Growth Portfolio
Business Development
Innovative Pipeline

Risk Key

M Medium
H High

Trend Key

Up
Flat
Down

BOARD OF DIRECTORS

Jan Boone

Non-Executive Chairman

Jan was appointed Non-Executive Chairman of the Group in 2017 following the acquisition of Ecuphar NV.

Committee membership

Member of the Audit and Risk Committee and the Remuneration and Nomination Committee

Relevant skills and experience

Jan is Chief Executive Officer of Lotus Bakeries which is listed on Euronext Brussels.

He started his career in the audit department 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. He became Managing Director of Lotus Bakeries in 2005 and Chief Executive Officer in 2011.

Jan also serves as a Non-Executive Director of Club Brugge KV.

Jennifer Winter

Chief Executive Officer

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

Committee membership

By invitation

Relevant skills and experience

Jennifer has over 20 years' experience in the pharmaceuticals sector including various senior commercial roles at AstraZeneca and GlaxoSmithKline. From 2015 until her appointment in 2018, she was Vice-President of Respiratory products – Global Supply Chain and Strategy at AstraZeneca. Other roles at AstraZeneca included Vice-President Cardiology – Global Product and Portfolio Strategy, Commercial Director – Eastern Europe, Marketing Company President Hungary, where she led a major change programme to drive future success, and Global Vice President, Group Public Affairs.

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.

Chris Brewster

Chief Financial Officer and Company Secretary

Chris was appointed Chief Financial Officer in 2012.

Committee membership

By invitation

Relevant skills and experience

Chris has a broad range of experience gained during his ten years of working across a number of functions at KPMG and through his role as Group Accounting Manager at Findus Group.

Since joining Animalcare, he developed the systems, controls and management information needed to support the growth and strategy of the former stand-alone UK business.

Following the acquisition of Ecuphar NV, Chris has taken responsibility for the changes required within the Finance and IT functions to create a robust platform for growth whilst supporting Jennifer with the integration and strategy of the Group.

Chris Cardon

Non-Executive Director

Chris moved to a Non-Executive role in July 2019. He was Chief Executive Officer of Ecuphar NV until its acquisition by the Group in July 2017 when he was appointed Chief Executive Officer of the Group and was Chief Strategy Officer from October 2018 to July 2019.

Committee membership

By invitation

Relevant skills and experience

Chris graduated as a pharmacist from the University of Ghent in 1993 after which he took over his family's pharmacy business. In 1995, he completed an MBA at the Vlerick Leuven-Gent Management School.

Chris has a strong entrepreneurial background in human OTC product development and in 1996 he established Mooss-Pharma NV, a company which developed human OTC products that were exclusively distributed by pharmacists and became a key player in the Belgian market. In 2001, the OTC assets of Mooss-Pharma were acquired by Omega Pharma NV. Chris then founded Ecuphar NV as Chris Cardon NV in 2001 to capitalise on opportunities identified in the animal health industry and grew the company through a successful focus on product portfolio development.

Chris received the prestigious award 'Export Lion of Flanders 2005' in the Young Exporters category.

BOARD OF DIRECTORS
CONTINUED

Marc Coucke
Non-Executive Director

Marc was appointed as a Non-Executive Director in 2017 following the acquisition of Ecuphar NV.

Committee membership

Member of the Remuneration and Nomination Committee

Relevant skills and experience

Marc graduated as a pharmacist from the University of Ghent after which he completed an MBA at the Vlerick Leuven-Gent Management School.

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 to Perrigo Company plc, he invests via his private investment firm, Alychlo NV, in several listed and non-listed companies.

He currently serves as Chairman of Mithra Pharmaceuticals and as Non-Executive Director of Fagron, both Belgian companies, in addition to a number of private companies. As Chief Executive Officer of Omega Pharma, he was awarded the EY Flemish Entrepreneur of the Year in 2002.

Nick Downshire
Independent Non-Executive Director

Nick joined the Board of Animalcare in 2008 when it was acquired by Ritchey plc for whom he was a director from 1998.

Committee membership

Chairman of the Audit and Risk Committee

Relevant skills and experience

Nick is a qualified chartered accountant and worked in corporate finance and venture capital before becoming the finance director of a software company. He has held non-executive directorships in a diverse range of businesses in the insurance, agricultural, hospitality, education and technology sectors.

Nick runs a rural estate in Yorkshire and is Chair of Audit and Risk for the CLA (Country Land and Business Association), as well as acting as a Trustee for a number of charitable and land related trusts. He is a council member and chairs the Audit and Risk Committee for the Duchy of Lancaster.

His experience with other organisations and his professional background assist him in chairing and bringing objectivity and analysis to the Audit and Risk Committee.

Ed Torr

Independent Non-Executive Director
Senior Independent Director

Ed was appointed as a Non-Executive Director and Senior Independent Director in 2017 following the acquisition of Ecuphar NV and was appointed Chairman of the Remuneration and Nomination Committee in February 2019.

Committee membership

Member of the Audit and Risk Committee and Chairman of the Remuneration and Nomination Committee

Relevant skills and experience

Ed has significant experience of international veterinary and animal health markets, gained over a period of more than 20 years, during which time he has worked for ICI, Pitman Moore, Alfa Laval Agri and Dechra Pharmaceuticals.

He was part of the management buyout team that set up Dechra Veterinary Products in 1997 and was an executive director on the board of Dechra Pharmaceuticals plc from 2000 until 2013. During this time, he was responsible for business development and managing the European business unit, and was 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 market sector.

CORPORATE GOVERNANCE STATEMENT

"As Chairman, I am responsible for leading the Board and upholding high standards of corporate governance throughout the Group and particularly at Board level."

Jan Boone
Non-Executive Chairman

An introduction from our Chairman

As a Board, we recognise that applying sound governance principles is essential to the successful running of the Group, and supports its long-term success and strategy for growth. I am therefore pleased to introduce our Corporate Governance Statement.

My colleagues share the view that sound governance is fundamental to the successful growth of the business. We continue to apply the principles of the QCA Corporate Governance Code (the "QCA Code"). Our Corporate Governance Report on pages 34 to 37 sets out how we apply the QCA Code principles and explains how our Board and Committees operates.

The principles of corporate governance

Compliance with the QCA Code

The Board believes that it applies the ten principles of the QCA Code. We recognise the need to continue to develop our governance practices and disclosures in order to ensure that they support the growth and strategic progress of the Group and the effective application of the principles going forwards. Our governance structure provides a framework of clearly established roles, policies and procedures which are 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 the structure to ensure that it develops in line with the growth and strategic plans of the Group.

Deliver growth

The Board has collective responsibility for setting the strategic aims and objectives of the Group and our strategy is articulated on pages 12 to 13 and on our website, along with our business model on pages 08 to 09. In the course of implementing our strategic aims, the Board takes into account expectations of the Company's shareholder base and also its wider stakeholder and social responsibilities.

The Board also has responsibility for the Group's internal control and risk management systems. The Board regularly considers and reviews the risks and opportunities for the business and ensures that the mitigation strategies in place are the most effective and appropriate to the Group's operations.

Dynamic management framework

In June last year, James Lambert stood down from the Board after sixteen years as a Non-Executive Director of the Group. In July, Chris Cardon stepped down from his executive role as Chief Strategy Officer to become a Non-Executive Director. We will continue to monitor the composition of the Board. Future appointments will continue to be on merit, with due consideration given to the need for diversity, and to complement the existing balance of skills and experience on the Board.

As Chairman, I consider the operation of the Board as a whole and the performance of the Directors individually. During the year, we conducted a detailed Board performance evaluation process. A description of the process and the results and action taken are described on page 36.

The Company operates an open and inclusive culture and this is reflected in the way that the Board conducts itself. The Non-Executive Directors attend the Group's offices and other Group events. With a relatively small employee base, such interactions mean it is relatively straightforward for the Board to promote and assess the desired corporate culture. The Board recognises the importance of maintaining a proactive focus on culture as the Group grows and we intend to continue our focus on corporate culture and ethical values during the coming year. A more detailed explanation of the Board's monitoring of culture is explained on page 37.

Build trust

The Board recognises the importance of understanding the expectations of, and maintaining regular dialogue with, shareholders to ensure that the Group's strategy is communicated. A description of this activity is set out on page 10. The Board receives regular feedback from the Executive team on their discussions with shareholders and potential investors.

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 shareholders.

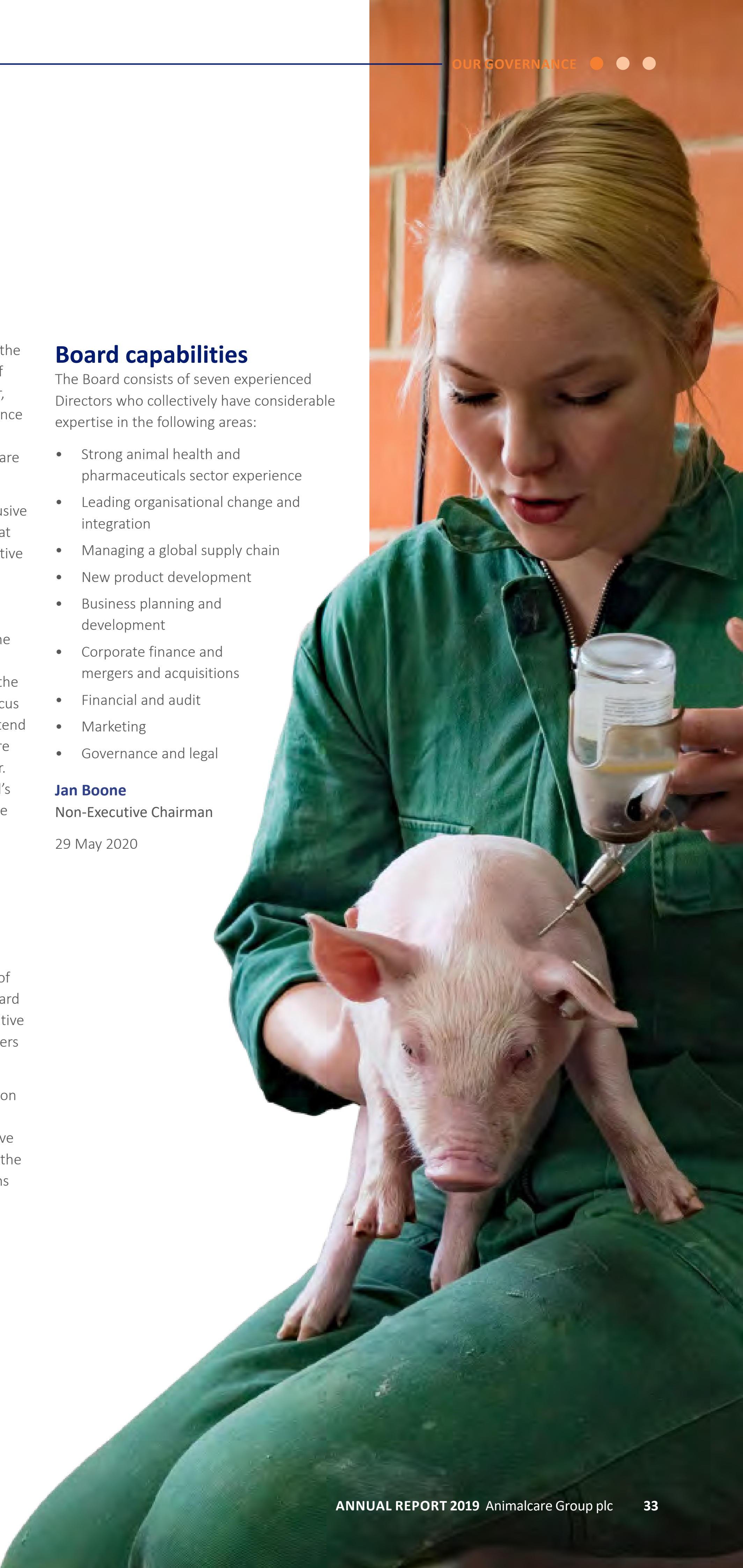
Board capabilities

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

- Strong animal health and pharmaceuticals sector experience
- Leading organisational change and integration
- Managing a global supply chain
- New product development
- Business planning and development
- Corporate finance and mergers and acquisitions
- Financial and audit
- Marketing
- Governance and legal

Jan Boone
Non-Executive Chairman

29 May 2020



CORPORATE GOVERNANCE REPORT

Composition of the Board

The composition of the Board has been structured to ensure that no one individual can dominate its decision-making processes.

The Board currently comprises two Executive Directors and five Non-Executive Directors. The biographies of the current Directors can be found on pages 28 to 31.

James Lambert resigned from the Board on 25th June 2019.

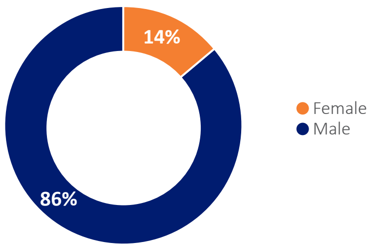
On 25th July 2019, Chris Cardon moved to a non-executive role on the Board.

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

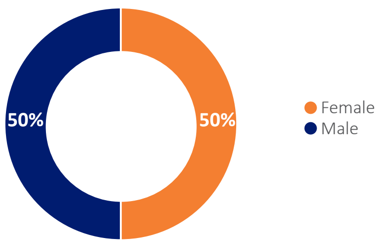
The Board recognises the benefits of diversity, including gender balance, and is committed to creating an inclusive culture, free from discrimination of any kind, and this extends to Board appointments.

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

Board gender diversity



Leadership Team diversity



The Board also recognises that as the Group evolves, the mix of experience and skills on the Board may change and the Board composition will need to reflect that change. The Remuneration and Nomination Committee has responsibility for succession planning for Board Directors and other Senior Executives and will increase its focus on this area as the Board and Leadership Team develops. Members of the Leadership 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 ensures that the Board is updated as to developments to corporate governance practice and forthcoming changes to legislation or regulation which may impact on the Company.

Independence

The Non-Executive Chairman, Jan Boone, and Senior Independent Director, Ed Torr, are considered independent and therefore the Board is compliant with the QCA Code, having at least two independent Non-Executive Directors. Although Nick Downshire has been a Director of the Company for more than ten years, the Board also considers him to be independent in character and judgement.

Following the acquisition of Ecuphar NV, 23.1% of the issued share capital of the Company is held by Ecuphar Invest NV in July 2017, an entity controlled by Chris Cardon, and a further 23.1% of the issued share capital is held by Alychlo NV, an entity wholly owned by Marc Coucke.

The Board is aware of its duty to hear the voices of, and protect the interests of, all shareholders and has put in place contractual arrangements with Ecuphar Invest NV and Alychlo NV, in the form of a relationship agreement in order to protect minority shareholder interests. A summary of the key terms of the relationship agreement is set out in the Admission document dated 24 June 2017 which is available on the Company's website (www.animalcaregroup.co.uk).

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. Further details on the role of the Remuneration and Nomination Committee are set out in its report on page 41.

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 as required by the Company's Articles of Association ("Articles").

In accordance with corporate governance best practice, all of the Directors will retire and offer themselves for re-election at the next Annual General Meeting. The Board considers that each of the Directors continue 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 for its 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.

These include matters relating to:

- The Group's strategic aims and objectives
- The structure and capital of the Group financial reporting, financial controls and dividend policy
- Internal control, risk and the Group's risk appetite
- The approval of significant contracts and expenditure
- Effective communication with shareholders
- Any changes to Board membership or structure

Board meetings

The Board met formally five times during the year. Non-Executive Directors communicate directly with Executive Directors and senior management between formal Board meetings and Board members are also invited to a Budget review meeting with senior management held in November each year.

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 also included 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 Chairman 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 Leadership 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:

	Board	Audit and Risk Committee	Remuneration and Nomination Committee
Jan Boone	5/5	3/3	2/2
Chris Brewster	5/5	–	–
Chris Cardon	5/5	–	–
Marc Coucke[1]	2/5	–	2/2
Nick Downshire	5/5	3/3	–
Ed Torr	5/5	3/3	2/2
Jennifer Winter	5/5	–	–

[1] Marc Coucke was unable to attend three Board meetings due to conflicting business meetings. His comments on papers to be considered at those meetings were discussed in advance with the Chairman so that his contribution could be included in the wider Board discussion.

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

The Board agenda includes the CEO's report and operations reports, financial reports, consideration of reports from the Board Committees and investor relations updates. In addition, key areas put to the Board for consideration and review during the year included:

- Trading updates
- New product development and opportunities
- Strategy and integration
- Presentations from members of the Leadership Team
- Approval of annual and half-year report and financial statements
- Review of budget
- Going concern and cash flow
- Briefing and review of conflicts of interest
- Board performance evaluation
- Review of AGM business
- Share Dealing Code
- Investor relations and share register analysis

Details of some of the Board's key discussions and stakeholder considerations are set out in the Strategic report on pages 12 to 13.

Leadership Team

The Leadership Team consists of the Group Function Heads, Country Managers and Executive Directors. The team meets in person quarterly and via conference call at least once a month. Their responsibilities include tracking financial performance, progress against our strategic objectives, leadership development, improving employee engagement and all aspects of the operational leadership of the organisation.

CORPORATE GOVERNANCE REPORT
CONTINUED

The 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.

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.

External advisers

The Board seeks advice on various matters from its nominated adviser, and broker and corporate finance adviser, Panmure Gordon & Co from its lawyers, Squire Patton Boggs and from 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 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 Chairman or Company Secretary.

Board evaluation

The Board reviewed the outcome of a formal performance evaluation process during the year. The process was conducted by way of a detailed questionnaire completed by each member of the Board to obtain the Directors' views on the effectiveness of the Board, its committees and on key governance areas. The responses were collated and reviewed by the Chairman and a summary of the results presented to the Board in April. The Board discussed the results in detail at the Board meeting in June. As a result of the open discussion, some areas of focus were agreed to improve the balance, composition and effectiveness of the Board over the course of the year. These included consideration of the composition of the Board, the addition of a dedicated strategy session to the Board calendar, increasing the Audit Committee's focus on the Group's integrated risk management plan and continuing to ensure the Group's culture is articulated and embedded across the Group.

Conflicts of interest

At each meeting of the Board or its Committees, the Directors are required to declare any interests in the matters to be discussed and are regularly reminded of their duty to notify any actual or potential conflicts of interest. The Company's Articles of Association provide for the Board to authorise any actual or potential conflicts of interest if deemed appropriate to do so.

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 which 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 Executive Directors and the Leadership Team
- 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
- 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.

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 the Group's corporate governance and company secretarial adviser, Prism Cosec.

Directors' and officers' liability insurance

The Company has purchased directors' and officers' liability insurance during the year as allowed by the Company's articles.

Risk management

Risks throughout the Group are considered and reviewed by the Audit and Risk Committee and reported to the Board on a regular basis. Risks are identified and mitigating actions put into place as appropriate. Principal risks identified are set out in the Strategic Report on pages 12 to 13. Internal control and risk management procedures can only provide reasonable and not absolute assurance against material misstatement. The internal control procedures were in place throughout the financial year and up to the date of approval of this report.

Culture

The Board sets clear expectations concerning the Group's culture and values. During the year we established the values and behaviours for the organisation and rolled out group wide policies, including a new Code of Conduct, to strengthen compliance, which have all been cascaded throughout the organisation.

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 that it leads by example. Members of the Board engage with members of the Leadership Team and wider employee base, in particular, through holding Board meetings at different business units. During the year we established the values and behaviours for the organisation and rolled out group wide policies, including a new Code of Conduct, to strengthen compliance, which have all been cascaded throughout the organisation. communicate regularly with staff through Such interactions provide valuable insight into our corporate culture and assists the Board in monitoring and promoting a healthy corporate culture throughout the business.

Relations with shareholders

The Group maintains communication with institutional shareholders through individual meetings with Executive Directors, particularly following publication of the Group's interim and full year results. We encourage our shareholders to attend our Annual General Meetings ("AGMs") and we give them the opportunity to pose questions to our Directors.

General information about the Group is also available on the Group's website (www.animalcaregroup.co.uk). This includes an overview of activities of the Group and details of all recent Group announcements. The Non-Executive Directors are available to discuss any matter stakeholders might wish to raise, and the Chairman and independent Non-Executive Directors will attend meetings with investors and analysts as required.

A review of the share register is a regular item on the Board's agenda.

Employee engagement

Due to the Company's relatively small employee base, the Non-Executive Directors are able to engage directly with employees and they attend meetings and dinners with some of the team.

Our 2019 Employee Engagement survey results showed an overall improvement on the 2018 results, particularly in terms of employee recognition, reflecting the implementation of our Purpose and Core values and the introduction of a process of regular feedback across the Group. Key focus areas for 2020 include Performance Management & Development and the implementation of a Talent Management program across the Group.

Annual General Meeting

The Company's Annual General Meeting ("AGM") is scheduled to be held at 3pm on Tuesday 30 June. Due to the ongoing COVID-19 pandemic, and the control measures put in place by the UK Government, the Directors do not expect that it will be possible to hold the AGM in the way we had originally planned and the Board has therefore decided that it should be run as a closed meeting. As a result, shareholders will not be permitted to attend in person. Given these circumstances, the Board strongly advises shareholders to appoint the chairman of the meeting as proxy for their votes. We encourage shareholders to submit questions for the Board ahead of the AGM by email to communications@animalcaregroup.com. The Board will, where appropriate, post answers on the Group's website www.animalcaregroup.com/investors/agm after the AGM.

AUDIT AND RISK COMMITTEE REPORT

"As Chairman of the Audit and Risk Committee, I am pleased to present the Committee's report for the year ended 31 December 2019."

Nick Downshire
Chairman of the
Audit and Risk Committee

On behalf of the Board, I am pleased to present the Audit and Risk Committee's report for the year ended 31 December 2019.

In December 2019, it was agreed that the Committee would take a more active role in monitoring and reviewing the Group's integrated risk management framework and that, as a result, the name of the Committee would formally change to the Audit and Risk Committee with effect from 1st January 2020.

The Audit and Risk Committee is responsible for ensuring that the financial performance of the Group is properly reported on and monitored. Its role includes monitoring the integrity of the Group's financial statements, reviewing significant financial reporting issues, reviewing the effectiveness of the Company's internal control and risk management systems, and the appropriateness and effectiveness of the risk management framework and overseeing the relationship with the external auditor (including advising on their appointment, agreeing the scope of the audit and reviewing the audit findings). 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

The Committee comprises three independent Non-Executive Directors:

- Nick Downshire (Chairman)
- Jan Boone
- Edwin Torr

The Board is satisfied that Nick Downshire, as Chairman of the Committee, who is a qualified Chartered Accountant having worked in corporate finance and venture capital and is an experienced Non-Executive Director and Audit and Risk Committee chair, has recent and relevant financial experience.

The Committee met three times during the year and on one occasion since the year end and will continue to meet at appropriate times in the reporting and audit cycle and at such other times as is necessary to discharge its duties. Although only members of the Committee have the right to attend meetings, the Chief Executive Officer, Chief Financial Officer and external advisers may be invited to attend for all or part of the meeting.

Duties

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

- To monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, trading statements and any other formal announcements relating to its financial performance, reviewing significant financial reporting issues and judgements that they contain
- To review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems to identify, assess, manage and monitor financial risks, including the appropriateness and effectiveness of the risk management framework
- To review the arrangements for whistleblowing enabling its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters

- To consider annually whether the Company's size and activities are such that an internal audit function should be established and, if so, determine its remit and make a recommendation to the Board
- To consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, reappointment and removal of the Company's external auditor
- To monitor and review the external auditor's independence and objectivity, taking into account relevant statutory, professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services
- To develop and implement a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant statutory, professional and regulatory requirements on the matter
- To report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

- The Committee reviews its Terms of Reference annually and the Board approved the current Terms of Reference on 17th December 2019, which included the renaming of the Committee to the Audit and Risk Committee with effect from 1st January 2020 to reflect the Committee's more active role in monitoring of the Group's integrated risk management plan.

The Committee oversees the Group's and its subsidiaries' internal financial controls and risk management systems, recommends the half and full-year financial results to the Board and monitors the integrity of all formal reports and announcements relating to the Group's financial performance.

The Committee challenges both the external auditor and the management of the Group and reports the findings and recommendations of the external auditor 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.

Principal activities during the year

The items of business considered by the Committee during the year included:

- Review of the 2018 financial statements and Annual Report
- Consideration of the external audit report and management representation letter
- Going concern review
- Review and approval of the interim results
- Assessment of the need for an internal audit function
- Meeting with the external auditor without management present
- Review of the 2019 audit plan and audit engagement letter
- Review of the integrated risk management framework and internal control systems

As regards the 2019 Annual Report, during May 2020, the Committee considered the potential impact of the COVID-19 pandemic on the cashflows and liquidity of the Group, particularly in relation to the preparation of the Group's financial statements on a going concern basis. Management prepared a series of future trading scenarios to June 2021 to factor in a range of downside revenue estimates with mitigating actions on cost and cash flow. Further details are included in the Chief Financial Officer's review and note 3 Summary of Significant Accounting Policies.

Role of the external auditor

The Committee monitors the relationship with the external auditor to ensure that auditor independence and objectivity are maintained. As part of its review the Committee monitors the provision of non-audit services by the external auditor. The breakdown of fees between audit and non-audit services is provided in note 24 to the Group's Consolidated Financial Statements.

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

Audit process

The external auditor prepare an audit plan for its review of the full-year financial statements. The audit plan sets out the scope of the audit, areas to be targeted and audit timetable. This plan is reviewed and agreed in advance by the Committee. Following its review, the external auditor presented its findings to the Committee for discussion. No major areas of concern were highlighted by the external auditor during the year; however, areas of significant risk and other matters of audit relevance are regularly communicated.

Internal audit

The Committee has again considered the need for an internal audit function during the year 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.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

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 then reviewed by the Committee and reported to the Board. The significant issues considered by the Committee in respect of the year ended 31 December 2019 are set out below:

Carrying value of goodwill and intangible assets of the Group and the carrying value of investments held by Animalcare Group plc	Consideration of the carrying value of goodwill and intangibles 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 judgmental provisions	Determining the appropriateness of the assumptions used in the recognition and valuation of judgemental provisions which relate mainly to inventory, customer rebates, restructuring and integration.
Presentation of underlying profit adjustments	A review of the appropriateness of items disclosed as non-recurring items including amortisation of acquired intangibles, restructuring and integration costs.
Impact of IFRS 16	A review of the impact of IFRS 16 in the current financial year and the application of relevant procedures following the adoption of the standard.

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 auditor and that the disclosures made in this Annual Report and Accounts were appropriate.

Risk management and internal controls

The Group has established a framework of risk management and internal control systems, policies and procedures.

The Committee is responsible for reviewing the risk management and internal control framework and ensuring that it operates effectively. During the year, the Committee undertook a review of the integrated risk management framework, the risks facing the Group and the actions taken to mitigate each risk. The Committee is satisfied that the internal control systems which have been established are currently operating effectively.

Share dealing

The Group has adopted 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's whistleblowing procedures under which staff may report any suspicion of fraud, financial irregularity or other malpractice were reviewed and updated during the year.

Nick Downshire
Chairman of the Audit and Risk Committee

29 May 2020

REMUNERATION AND NOMINATION COMMITTEE REPORT

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

The Committee comprises four Non-Executive Directors, two of which are considered independent:

- Ed Torr (Chairman)
- Jan Boone
- Marc Coucke

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

The Committee meets at least twice a year and at such other times during the year as is necessary to discharge its duties. 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.

Duties

The Committee works closely with the Board to formulate remuneration policy and to consider succession plans and possible internal candidates for future Board roles, having regard to the views of shareholders. The main duties of the Committee are set out in its Terms of Reference, which are available on the Company's website (www.animalcaregroup.co.uk) 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 changes necessary;
- Considering succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Company; and
- Leading the process for all potential appointments to the Board and making recommendations to the Board in relation to potential appointments.

Remuneration

- Setting remuneration for the Executive Directors, including pension rights and any compensation payments;
- Approving the design of, and determining targets for performance-related pay schemes and approving the total annual payments made under these schemes; and
- Recommending and monitoring the level and structure of remuneration for senior management.

Principal activities during the year

During the year, the Committee considered the following matters:

- Benchmarking and review of Executive Directors' remuneration
- Benchmarking and review of the remuneration of the Leadership Team
- Performance criteria for the Long Term Incentive Plan ("LTIP") and future awards under the LTIP
- Review of performance of the Executive Directors
- Approval of salary increase for the CEO
- Review of Board composition
- Succession planning
- Board evaluation
- Re-election of Directors at the AGM
- Review of the Committee's terms of reference

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

Diversity

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, on the Board, although it believes that all appointments should be made on merit, while ensuring there is an appropriate balance of skills and experience within the Board.

The Leadership Team consists of 50% (six) male and 50% (six) female members.

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 2019.

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 on page 41.

The Committee is, among other things, responsible for setting the remuneration policy for Executive Directors and the Chairman, 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 stakeholders.

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

- Have regard to the Director's 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 Director's personal performance; and
- Link individual remuneration packages to the Group's long-term performance and continued success of the Group 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.

Annual bonus

The Committee has agreed performance conditions for the annual bonuses of the Executive Directors 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.

Long Term Incentive Plan

A 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 24th June 2017 which is available on the Company's website (www.animalcaregroup.co.uk).

On 6th June 2019, the Board approved the grant of nil-cost options under the LTIP over a total of 425,279 ordinary shares with a nominal value of 20p per share ("the Options") awarded to the Executive Directors and to members of the Leadership Team. Details of the nil-cost options granted to the Executive Directors are set out on page 45.

The LTIP awards will normally vest three years after the date of grant subject to the following performance criteria being met over the three-year financial period ending 31 December 2021. 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%
8%	100%
Between 3% and 8%	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 note 25 to the consolidated financial statements.

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

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	24th January 2012	Rolling contract	6 months	6 months
Jenny Winter	2nd 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.

Iain Menneer resigned as a Director of the Company on 26th April 2018 and was placed on gardening leave for his 12-month notice period which expired on 25th April 2019.

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 Chairman) is decided by the Chairman and Executive Directors.

Fees are designed to ensure the Company attracts and retains high-calibre individuals. They are reviewed on an annual basis and account is taken of the level of fees paid by other 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.

Terms of appointment

Each of the Non-Executive Directors signed a letter of appointment on 23rd June 2017 for an initial term of three years which can be terminated by either party giving to the other one month's prior written notice. The initial term is due to expire at the conclusion of the 2020 AGM. The Directors intend to renew these appointments for a further period of three years expiring at the conclusion of the 2023 AGM of the Company and recommend the re-election of each of the Non-Executive Directors at the 2020 AGM.

Remuneration policy for 2020

The remuneration policy for 2020 will operate as follows:

	Role	Basic salary/fee £'000s	Maximum bonus potential
Executive			
Jennifer Winter[1]	Chief Executive Officer	300	50%
Chris Brewster	Chief Financial Officer	205	40%
Non-Executive			
Jan Boone	Chair	70	–
Nick Downshire	Chair of Audit and Risk Committee	40	–
Ed Torr	Chair of Remuneration and Nomination Committee	43	–
Marc Coucke	Non-Executive Director	40	–
Chris Cardon	Non-Executive Director	40	–

1. Following benchmarking and review of remuneration and fees, the CEO's salary was increased from £285,000 to £300,000.

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 2019.

Directors' remuneration (audited)

The following table summarises the gross aggregate remuneration of the Directors who served during the year to 31 December 2019:

£'000		Salary and fees	Annual bonus	Benefits	Pension	Compensation for loss of office	Total
Executive Directors							
Jenny Winter[1]	**2019**	**285**	**71**	**14**	**–**	**–**	**370**
	2018	71	–	3	–	–	74
Chris Brewster	**2019**	**205**	**41**	**13**	**25**	**–**	**284**
	2018	205	–	12	25	–	242
Chris Cardon[2,3,4]	**2019**	**159**	**–**	**–**	**–**	**–**	**159**
	2018	352	–	7	27	–	386
Iain Menneer[5]	**2019**	**–**	**–**	**–**	**–**	**90**	**90**
	2018	32	–	3	28	203	266
Non-Executive Directors							
Jan Boone	**2019**	**70**	**–**	**–**	**–**	**–**	**70**
	2018	70	–	–	–	–	70
Marc Coucke	**2019**	**40**	**–**	**–**	**–**	**–**	**40**
	2018	40	–	–	–	–	40
Nick Downshire	**2019**	**40**	**–**	**–**	**–**	**–**	**40**
	2018	40	–	–	–	–	40
James Lambert[6]	**2019**	**20**	**–**	**–**	**–**	**–**	**20**
	2018	40	–	–	–	–	40
Ed Torr	**2019**	**43**	**–**	**–**	**–**	**–**	**43**
	2018	40	–	–	–	–	40
Total	**2019**	**162**	**112**	**27**	**25**	**90**	**1,115**
	2018	890	–	25	80	203	1,198

1. Jennifer Winter was appointed as a Director on 1st October 2018 with an annual salary of £285,000. Her salary for 2018 was prorated accordingly
2. From 1st January to 23rd July 2019, Chris Cardon's salary was £250,000. On his change of role to Non-Executive Director on 25th July 2019, he received an annual fee of £35,000 prorated from the date of his change of role. (From 1st January to 31st September 2018, Mr Cardon's annual salary was €335,000. On his change of role from 1st October 2018, his annual salary was €250,000.) Prorated salary is converted to GBP at the Group 2019 average rate of £1:€1.14.
3. Mr Cardon received a car allowance of £6,000 per annum and life assurance and private medical cover to the value of £3,413 per annum for the period from 1st January to 30th September 2018.
4. Mr Cardon received a salary supplement in lieu of a pension contribution of 12% of salary for the period from 1st January to 30th September 2018.
5. Iain Menneer resigned as a Director of the Company on 26th April 2018 and was placed on gardening leave for his 12-month notice period. Compensation for loss of office for 2019 represents the salary paid to Mr Menneer during his gardening leave from 1st January 2019 to 26th April 2019 (and from 27th April to 31 December 2018).
6. James Lambert resigned as a Director on 25th June 2019.

Share options (audited)

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

	Date of grant	Number of LTIP options awarded	First exercise date
Jennifer Winter	06/06/19	177,570	06/06/22
Chris Brewster	06/06/19	76,636	06/06/22

A total of 171,073 options over ordinary shares were also granted to members of the Leadership Team.

Chris Cardon did not receive an award under the LTIP.

Directors' interests in the share capital of the Company

The Directors' interests in the share capital of the Company as at 31 December 2019 and the movements during the year are set out below:

Director	Number of shares held as at 1st January 2019	Acquired/ (disposed) during the period	Number of shares held as at 31 December 2019	Percentage of ISC as at 31 December 2019
Jan Boone	50,171	–	50,171	0.08
Chris Brewster	280,513	–	280,513	0.47
Chris Cardon	13,857,213	–	13,857,213	23.07
Marc Coucke	13,857,213	–	13,857,213	23.07
Nick Downshire	1,031,529	–	1,031,529	1.75
Edwin Torr	107,455	–	107,455	0.18
Jennifer Winter	–	–	–	–

In addition, as at 1st January 2019, Nick Downshire had a non-beneficial interest of 190,446 shares; as at 31 December 2019, he had a non-beneficial interest of 190,446 shares.

There were no changes in the Directors' interests in shares between 31 December 2019 and 29 May 2020.

Ed Torr

Chairman of the Remuneration and Nomination Committee

29 May 2020

DIRECTORS' REPORT

The Directors present the Directors' Report, together with the audited Financial Statements of the Group and the Company for the year ended 31 December 2019.

Principal activities

Animalcare Group plc is a public limited company incorporated in England and Wales with registered number 01058015, which is listed on the Alternative Investment Market ("AIM") of 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 on pages 18 to 23.

Corporate Governance and the Group's financial risk management objectives in the Corporate Governance Report on pages 34 to 37.

The Directors' remuneration report can been found on pages 42 to 45.

Details of the Company's exposure to price risk, credit risk, liquidity risk and cash flow risk can be found in Note 23 of the financial Statements.

Details of the salaries, bonuses, benefits and share interests of Directors in the Directors' Remuneration Report on pages 42 to 45.

Section 172 statement, the key issues and stakeholder considerations dissussed by the Board during the year and how the Company engages with its stakeholders are set out on page 10 of the Strategic report.

Directors' responsibility statements on page 49.

Likely future events are disclosed within the Strategic report on pages 12 to 13.

Post balance sheet events are set out in the Strategic Report on page 17 and in note 28.

Dividend

On 25 March 2020, the Group announced that payment of the final dividend had been deferred with the aim of supporting our financial strength and providing a platform to continue progressing opportunities during the global COVID-19 pandemic. This decision by the Board, which had the effect of retaining an additional approximately £1.4m in cash, will be reviewed later in 2020. At that point, the Board will consider what actions are in the best interests of shareholders.

Directors and Directors' interests

The names of the current Directors of the Company and their biographical details are shown on pages 28 to 31. Changes to directorships during the reporting period are shown on page 32. Details of Directors' interests in the shares of the Company are shown on page 45. This information is incorporated into this report by reference.

Share capital structure

The Company's issued share capital as at 31 December 2019 was £12,011,432.20 divided into 60,057,161 ordinary shares of 20 pence each.

There have been no changes to the Company's issued share capital between 31 December 2019 and the date of this report.

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.co.uk).

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 25th June 2019, 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 6,005,716 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 £4.7m (2018: £6.2m).

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 note 20 to the Consolidated Financial Statements on page 88.

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 2019 and remains in place at the date of this report. The Company reviews its level of cover annually.

Political donations

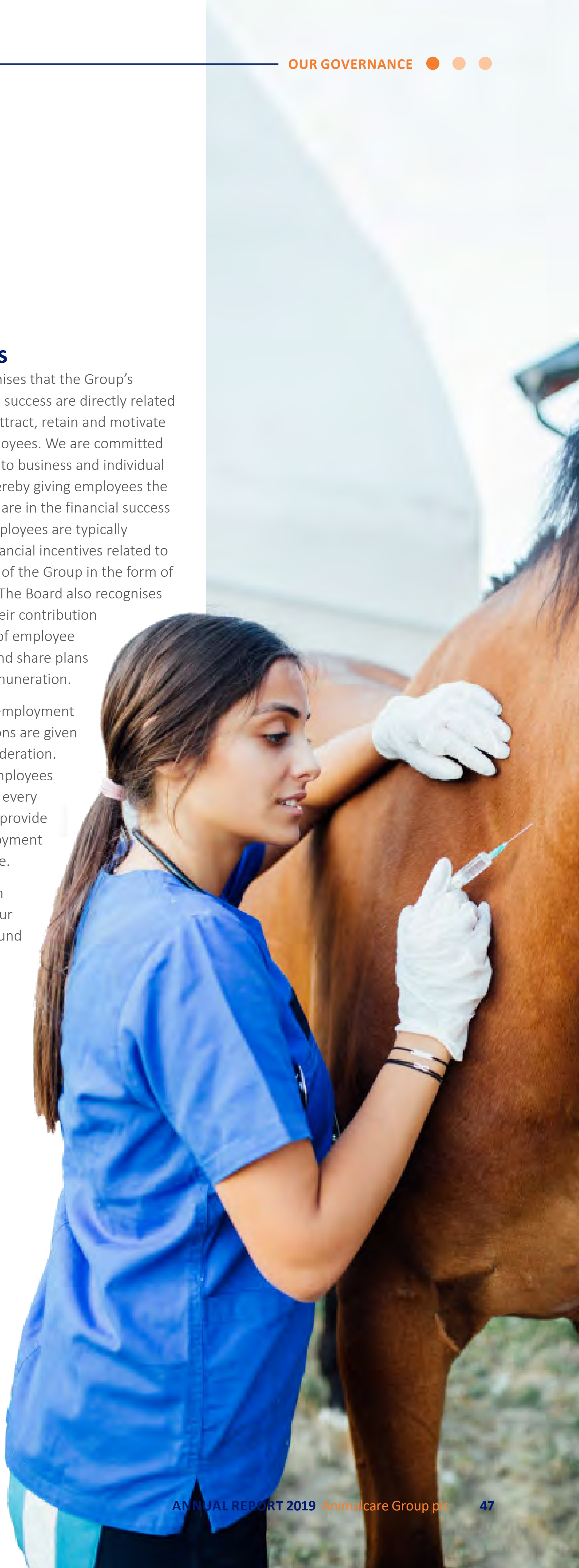
No political donations were made during the year (2018: £nil).

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 employees for their contribution through the use of employee incentive plans and share 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.

Further details on employees and our culture can be found on page 37.



DIRECTORS' REPORT CONTINUED

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 Strategic Report on page 12.

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 15 May 2020:

Name of holder	No. of ordinary shares	% holding
Alychlo NV	13,857,213	23.07
Ecuphar Invest NV	13,857,213	23.07
Liontrust Asset Management	6,975,389	11.61
Canaccord Genuity Wealth Management	2,103,407	3.50

Relationship agreement

On 23 June 2017, the Company entered into a relationship agreement with Panmure Gordon, the Company's nominated adviser and broker and Alychlo NV and Ecuphar Invest NV ("the Substantial Shareholders"). The Substantial Shareholders together own more than 40% of the Group's total issued share capital. The Relationship Agreement is intended to ensure that the Company will at all times be capable of carrying on the business independently of each of the Substantial Shareholders and their respective Shareholder Groups (being the Associate of the Substantial Shareholders) and all transactions and arrangements between i) the Company and ii) each of the Substantial Shareholders, and the members of their respective Shareholder Groups will be at arm's length and on normal commercial terms.

The Board confirms that, at all times since it was entered into:

- the Company has complied with its obligations under the Relationship Agreement; and
- so far as the Company is aware, the Substantial Shareholders and their respective Shareholder Groups have complied with the provisions of the Relationship Agreement.

The Relationship Agreement will continue for as long as the Ordinary Shares as defined in the Relationship Agreement are admitted to trading on AIM and the Substantial Shareholders together with their respective groups are interested in voting rights representing, in aggregate, 25% or more of total voting rights attaching to the Ordinary Shares (provided that, if the interest of a Majority Vendor together with its associates falls below 5%, the Relationship Agreement shall cease to apply to that Majority Vendor).

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. 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 the inherent uncertainty and potential impact of COVID-19 post year end. Further details on the potential impact of COVID-19 and the conclusion thereon are included in the statement on going concern in note 3 on page 61.

Disclosure of information to auditor

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

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The Director has taken all the steps that he ought to have taken as a Director in order to make himself 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 at 3pm on Tuesday 30 June 2020 at 10 Great North Way, York, YO26 6RB. The Notice of 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.

Approval

The Strategic Report on pages 01 to 27 and this Directors' Report on pages 46 to 48 were approved by the Board on 28 May 2020.

Approved by the Board and signed on its behalf by

Chris Brewster
Chief Financial Officer and
Company Secretary

29 May 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the 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 and Company 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 IFRSs as adopted by the European Union have been followed for the Group financial statements and IFRSs as adopted by the European Union have been followed for the Company financial statements, 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 keeping adequate accounting records that are sufficient to show and explain the Group 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also 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 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.

The Directors consider that the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Board of Directors section confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

Chris Brewster
Chief Financial Officer and Company Secretary

29 May 2020

INDEPENDENT AUDITOR'S 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 parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's loss and the group's and the parent company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company's financial statements, 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: the consolidated and company statements of financial position as at 31 December 2019; the consolidated income statement, consolidated statement of comprehensive income, the consolidated and company cash flow statements, and the consolidated and company statements of changes in equity 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.

Material uncertainty related to going concern – Group and Parent Company

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 3 to the group financial statements and note 1 to the parent company's financial statements concerning the group's and parent company's ability to continue as a going concern.

The Group's forecast cash flows contain assumptions over revenue, profitability and cash generation. These forecasts have been stress-tested for severe but plausible scenarios that could impact the Group. These show that in a more prolonged severe downturn there may be a potential breach of the leverage covenant for the Group's borrowing facility. If such a breach were to occur the Group would need to obtain a covenant relaxation or waiver from the Group's banking syndicate. This condition, along with the other matters explained in note 3 to the financial statements, indicates the existence of a material uncertainty which may cast significant doubt about the group's and parent company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and parent company were unable to continue as a going concern.

Explanation of material uncertainty

Management and the Board considered the potential impact of COVID-19 on the current and future operations of the business. In doing so, management focused on the Group's ability to continue as a going concern by performing a detailed bottom-up analysis of the impact of COVID-19 on revenue, EBITDA and cashflows. Management made estimates and judgements that are critical to the outcome of these considerations. Three scenarios were modelled – a new base case and two further downside scenarios. This analysis has been used in conjunction with an assessment of the Group's liquidity and consideration of loan covenants.

Audit procedures performed

In assessing management's consideration of the potential impact of COVID-19, we undertook the following procedures:

- We obtained management's board report that details the Group's assessment and conclusions with respect to their ability to continue as a going concern;
- We assessed the initial 2020 (pre-COVID-19) budget as well as the new base case forecast and two further downside scenarios (each of which factor in COVID-19 overlays);
- We confirmed that the initial 2020 (pre COVID-19) budget was board approved. In addition, we evaluated the historical accuracy of the budgeting process to assess the reliability of the data;
- In relation to the COVID-19 overlays, we held discussions with management to understand and challenge the rationale behind the assumptions made, using our knowledge of the business and industry;
- We reviewed the latest trading results for the year to date in 2020 and compared to management's original budget, FY19 actuals and revised forecasts, and considered the impact of these actual results on the future forecast period;
- We understood the mitigating actions taken by management, including suspending the final dividend payment;
- We reviewed management's sensitivity scenarios and we challenged management to run further downside scenarios in order to assess the possible impact of headroom against their borrowing facilities; and
- We reviewed the disclosures included within the Annual Report and consider these to be appropriate.

Our audit approach

Overview

- Overall group materiality: £325,000 (2018: £291,000), based on 2.5% of Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) excluding exceptional costs.
- Overall parent company materiality: £245,000 (2018: £250,000), based on 1% of net assets capped to less than group materiality.

- We, as the group engagement team, audited the two components based in the UK- being Animalcare Group plc and Animalcare Limited.
- The significant components based overseas, being Ecuphar N.V., Ecuphar Veterinaria S.L., and Ecuphar GmbH, have been audited by PwC component auditors. We were heavily involved at all stages of their audits by virtue of numerous communications throughout the process, including the issuance of detailed audit instructions and review and discussion of audit findings, in particular over our areas of focus.
- As a result of this scoping we obtained coverage over £58.8 million (83%) of the group's external revenues and £12.1 million (93%) of the group's Adjusted EBITDA.

- Going concern (Group and Parent Company) – Refer to Material uncertainty related to going concern section above.
- Risk of impairment to assets – Goodwill and acquired intangible assets (Group) and investments (Parent Company).
- Impact of COVID-19 (Group and Parent 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. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ANIMALCARE GROUP PLC
CONTINUED

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. In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Risk of impairment to assets – Goodwill (Group), acquired intangible assets (Group) and investments (Parent Company) The group has £50.4 million (2018: £50.9 million) of goodwill and £18.7 million (2018: £22.8 million) of acquired intangible assets. The parent company has investments of £147.7 million (2018: £147.7 million). The carrying value of goodwill is assessed by an annual impairment review with both intangible assets at a group level and the investment held by the parent company reviewed for indicators of impairment and if needed an impairment review performed. No impairment charge has been recorded by management in the current year for either goodwill and acquired intangible assets within the group and the investment balance within Animalcare Group plc. The risk we have focused on is that these non-current assets could be overstated and an impairment charge may be required. We focused on this area because the determination of whether or not these non-current assets are impaired involves subjective judgements and estimates about the future results and cash flows of the business. On an annual basis, management calculate the amount of headroom between the value in use of the group's Cash Generating Units ('CGUs') and their carrying value to determine whether there is a potential impairment of the goodwill and acquired intangibles relating to those CGUs. The value in use of the CGU with respect to goodwill and acquired intangibles within the group and the investment held in Animalcare plc is dependent on 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. Management consider there to be just one CGU and therefore the same valuation performed is used to support the carrying values of the non-current assets for the group and parent company financial statements, adjusted to remove the parent company costs. See the accounting policies section within the financial statements for disclosure of the related accounting policies, judgements and estimates and Note 9 for detailed goodwill disclosures, Note 10 for detailed intangible disclosures within the consolidated financial statements and Note 6 within the company only financial statements.	We understood and evaluated management's budgeting and forecasting process. We obtained the group impairment analysis and tested the reasonableness of the key assumptions, including the following: • We tested the mathematical accuracy of the impairment model and agreed the carrying value of non-current assets being assessed for impairment to the balance sheet; • We challenged management's calculated group weighted average cost of capital (WACC) used for discounting future cashflows within the impairment model, utilising valuation experts to assess the cost of capital for the group and comparable organisations; • We traced the forecast financial information within the model to the latest Board approved budget and challenged management to provide support to corroborate trading assumptions, support for capital expenditure and considered the accuracy of previous forecasts; • We performed sensitivity analyses to ascertain the impact of reasonably possible changes in key assumptions and to quantify the downside changes needed before an impairment would be required at the CGU level; and • We have reviewed the financial statement disclosures made with respect to the sensitivity of the WACC, cashflows and growth rates. In summary, we found, based on our audit work, the carrying value of goodwill, intangibles and investments to be acceptable. We also considered the disclosures made within the financial statements and considered these to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Impact of COVID-19 – Group and Company COVID-19 was declared a global pandemic by the World Health Organisation on 11 March 2020 and the on-going response is having an unprecedented impact on the economy which was considered as part of the audit. The impact of the COVID-19 pandemic has been treated as a non-adjusting post balance sheet event for the Group and Parent Company. Because of its significance to the financial statements and to our audit, we determined that management's consideration of the potential impact of COVID-19 on going concern is a key audit matter.	In assessing the directors' consideration of the potential impact of COVID-19, our audit procedures included: • Testing management's going concern assessment and related disclosures in the financial statements, as explained in the Material uncertainties related to going concern section above. • Examining the directors' post balance sheet events disclosure in note 28 to the group financial statements. We agreed with their conclusion that the impact of COVID-19 is a non-adjusting event. We also agreed with the directors' assertion that it is not yet possible to quantify the impact. Based on the results of the procedures performed, and on the information available as of the date of the directors' approval of the financial statements and of our audit report, we concluded that material uncertainties exist which may cast significant doubt about the ability of the group and the company to continue as a going concern, as described in the Material uncertainties related to going concern section above.

INDEPENDENT AUDITOR'S 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 parent company, the accounting processes and controls, and the industry in which they operate.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

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:

	Group financial statements	Company financial statements
Overall materiality	£325,000 (2018: £291,000).	£245,000 (2018: £250,000).
How we determined it	2.5% of Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) excluding exceptional costs.	1% of net assets capped to less than group materiality.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, Adjusted 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 net assets are considered to be appropriate as it is not a profit oriented company. The company is a holding company only and therefore net assets is deemed a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £136,900 and £300,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £16,200 (Group audit) (2018: £14,500) and £12,000 (Parent company audit) (2018: £14,500) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 2019 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 parent 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 set out on page [x], 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 parent 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 parent 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.

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 parent 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 received 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 parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Ian Morrison

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Leeds

29 May 2020

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2019

		For the year ended 31 December					
	Notes	Underlying 2019 £'000	Non-Underlying (note 5) 2019 £'000	Total 2019 £'000	Underlying 2018 £'000	Non-Underlying (note 5) 2018 £'000	Total 2018 £'000
Revenue	6	**71,124**	**–**	**71,124**	72,470	–	72,470
Cost of sales	7.1	**(34,152)**	**–**	**(34,152)**	(35,131)	–	(35,131)
Gross profit		**36,972**	**–**	**36,972**	37,339	–	37,339
Research and development expenses	7.2	**(2,922)**	**(1,171)**	**(4,093)**	(3,466)	(1,296)	(4,762)
Selling and marketing expenses	7.3	**(11,862)**	**–**	**(11,862)**	(12,435)	–	(12,435)
General and administrative expenses	7.4	**(12,723)**	**(4,771)**	**(17,494)**	(11,877)	(4,789)	(16,666)
Net other operating (expense)/income	7.5	**(3)**	**(4,811)**	**(4,814)**	43	(3,302)	(3,259)
Operating profit/(loss)		**9,462**	**(10,753)**	**(1,291)**	9,604	(9,387)	217
Financial expenses	7.8	**(1,856)**	**–**	**(1,856)**	(840)	–	(840)
Financial income	7.9	**1,539**	**–**	**1,539**	266	–	266
Profit/(loss) before tax		**9,145**	**(10,753)**	**(1,608)**	9,030	(9,387)	(357)
Income tax	7.10	**(1,966)**	**2,236**	**270**	(2,016)	2,151	135
Net profit/(loss) from continuing operations		**7,179**	**(8,517)**	**(1,338)**	7,014	(7,236)	(222)
Net profit/(loss) from discontinuing operations	4	**–**	**–**	**–**	40	(816)	(776)
Net profit/(loss)		**7,179**	**(8,517)**	**(1,338)**	7,054	(8,052)	(998)
Net profit/(loss) attributable to:							
The owners of the parent		**7,179**	**(8,517)**	**(1,338)**	7,056	(8,052)	(996)
Non-controlling interest		**–**	**–**	**–**	(2)	–	(2)
Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company:							
Basic earnings per share	8	**12.0p**		**(2.2p)**	11.7p		(0.4p)
Diluted earnings per share	8	**12.0p**		**(2.2p)**	11.7p		(0.4p)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:							
Basic earnings per share	8	**12.0p**		**(2.2p)**	11.8p		(1.7p)
Diluted earnings per share	8	**12.0p**		**(2.2p)**	11.8p		(1.7p)

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 analysed in detail in note 5 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 2019

	For the year ended 31 December	
	2019 £'000	2018 £'000
Net (loss)/profit for the year	**(1,338)**	(998)
Other comprehensive income		
Cumulative translation differences*	**(795)**	165
Other comprehensive income, net of tax	**(795)**	165
Total comprehensive (expense)/income for the year, net of tax	**(2,133)**	(833)
Total comprehensive (expense)/income attributable to:		
The owners of the parent	**(2,133)**	(831)
Non-controlling interest	**–**	(2)

* May be reclassified subsequently to profit & loss

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2019

	Notes	For the year ended 31 December 2019 £'000	2018 £'000
Assets			
Non-current assets			
Goodwill	9	**50,454**	50,937
Intangible assets	10	**43,000**	51,334
Property, plant and equipment	11	**312**	477
Right-of-use assets	22	**1,917**	–
Deferred tax assets	7.10	**1,524**	1,699
Other financial assets		**59**	59
Other non-current assets	13	**72**	294
Total non-current assets		**97,338**	104,800
Current assets			
Inventories	12	**11,102**	14,891
Trade receivables	13	**10,891**	13,084
Other current assets	13	**2,746**	2,736
Cash and cash equivalents	14	**6,165**	8,035
Total current assets		**30,904**	38,746
Total assets		**128,242**	143,546
Liabilities			
Current liabilities			
Borrowings	16	**(612)**	(648)
Lease liabilities	22	**(830)**	–
Trade payables	15	**(10,334)**	(11,907)
Tax payables		**(1,288)**	(1,016)
Accrued charges and deferred income	18	**(2,063)**	(2,325)
Other current liabilities	19	**(2,799)**	(3,864)
Total current liabilities		**(17,926)**	(19,760)
Non-current liabilities			
Borrowings	16	**(21,428)**	(30,975)
Lease liabilities	22	**(1,106)**	–
Deferred tax liabilities	7.10	**(5,176)**	(5,521)
Deferred income	18	**(599)**	(617)
Provisions	17	**(118)**	(81)
Total non-current liabilities		**(28,427)**	(37,194)
Total liabilities		**(46,353)**	(56,954)
Net assets		**81,889**	86,592
Equity			
Share capital	21	**12,012**	12,012
Share premium	21	**132,729**	132,729
Reverse acquisition reserve		**(56,762)**	(56,762)
Accumulated losses	21	**(8,640)**	(4,732)
Other reserves		**2,550**	3,345
Equity attributable to the owners of the parent		**81,889**	86,592
Non-controlling interest	21	**–**	–
Total equity		**81,889**	86,592

The accompanying notes on pages 61 to 96 form an integral part of these consolidated financial statements.

The financial statements of Animalcare Group plc on pages 56 to 60, registered number 01058015, were approved by the Board of Directors and authorised for issue on 29 May 2020. 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 2019

	Attributable to the owners of the parent							
	Share capital £'000	Share premium £'000	Retained earnings/ Accumulated losses £'000	Reverse acquisition reserve £'000	Other reserve £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
At 1st January 2019	12,012	132,729	(4,732)	(56,762)	3,345	86,592	–	86,592
Net loss	–	–	(1,338)	–	–	(1,338)	–	(1,338)
Other comprehensive income	–	–	–	–	(795)	(795)	–	(795)
Total comprehensive expense	–	–	(1,338)	–	(795)	(2,133)	–	(2,133)
Dividends paid	–	–	(2,642)	–	–	(2,642)	–	(2,642)
Share-based payments	–	–	72	–	–	72	–	72
At 31 December 2019	**12,012**	**132,729**	**(8,640)**	**(56,762)**	**2,550**	**81,889**	**–**	**81,889**

	Attributable to the owners of the parent							
	Share capital £'000	Share premium £'000	Retained earnings/ Accumulated losses £'000	Reverse acquisition reserve £'000	Other reserve £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
At 1st January 2018	11,983	132,588	(1,347)	(56,762)	3,180	89,642	2	89,644
Net loss	–	–	(996)	–	–	(996)	(2)	(998)
Other comprehensive income	–	–	–	–	165	165	–	165
Total comprehensive expense	–	–	(996)	–	165	(831)	(2)	(833)
Dividends paid	–	–	(2,401)	–	–	(2,401)	–	(2,401)
Exercise of share options	29	141	–	–	–	170	–	170
Share-based payments	–	–	12	–	–	12	–	12
At 31 December 2018	**12,012**	**132,729**	**(4,732)**	**(56,762)**	**3,345**	**86,592**	**–**	**86,592**

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 2019

	Notes	For the year ended 31 December 2019 £'000	2018 £'000
Operating activities			
(Loss)/profit before tax from continuing operations		**(1,608)**	(357)
(Loss)/profit before tax from discontinued operations	4	**–**	(776)
(Loss)/profit before tax		**(1,608)**	(1,133)
Non-cash and operational adjustments			
Depreciation of property, plant and equipment	11/22	**1,270**	333
Amortisation of intangible assets	10	**8,222**	7,965
Impairment of intangible assets	10	**1,632**	852
Impairment of goodwill	9	**–**	456
Share-based payment expense	25	**72**	12
(Gain)/loss on disposal of fixed assets		**35**	(2)
Non-cash movement in provisions		**694**	–
Loss on disposal of subsidiary	4	**–**	682
Doubtful debts and inventories written off		**648**	620
Financial income		**(608)**	(254)
Financial expense		**1,250**	879
Impact of foreign currencies		**(330)**	16
Non-cash movement on transition to IFRS 16	22	**3**	–
Other		**(21)**	2
Movements in working capital			
Decrease/(Increase) in trade receivables		**3,098**	(540)
Decrease/(Increase) in inventories		**2,492**	(1,207)
(Decrease)/increase in payables		**(3,842)**	904
Income tax received/(paid)		**99**	(2,155)
Net cash flow from operating activities		**13,106**	7,430
Investing activities			
Purchase of property, plant and equipment	11	**(48)**	(213)
Purchase of intangible assets	10	**(2,343)**	(4,568)
Proceeds from the sale of property, plant and equipment (net)		**–**	6
Proceeds from sale of subsidiary	4	**–**	2,403
Sale/(purchase) of available-for-sale financial investments		**–**	459
Net cash flow used in investing activities		**(2,391)**	(1,913)
Financing activities			
Repayment of loans and borrowings		**(8,100)**	(2,257)
Repayment of IFRS 16 lease liability	22	**(1,053)**	–
Receipts from issue of share capital		**–**	170
Dividends paid	21	**(2,642)**	(2,401)
Interest paid		**(617)**	(637)
Other financial (expense)/income		**(27)**	11
Net cash flow (used in)/from financing activities		**(12,439)**	(5,114)
Net (decrease)/increase of cash and cash equivalents		**(1,724)**	403
Cash and cash equivalents at beginning of year	14	**8,035**	7,579
Exchange rate differences on cash and cash equivalents		**(146)**	53
Cash and cash equivalents at end of year	14	**6,165**	8,035
Reconciliation of net cash flow to movement in net debt			
Net increase in cash and cash equivalents in the year		**(1,724)**	403
Cash flow from decrease/(increase) in debt financing		**8,100**	2,257
Foreign exchange differences on cash and borrowings		**1,336**	(349)
Movement in net debt in the year		**7,712**	2,311
Net debt at the start of the year		**(23,588)**	(25,908)
Debt transferred on sale of subsidiary	4	**–**	9
Lease liabilities at end of the year	22	**(1,936)**	–
Net debt at the end of the year		**(17,812)**	(23,588)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

1 Financial information

Animalcare Group plc ("the Company") is a public company incorporated in the United Kingdom under the Companies Act 2006 and is domiciled in the United Kingdom. The address of its registered office is Unit 7, 10 Great North Way, York Business Park, York, YO26 6RB. 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 27.

2 Basis of preparation

The Group financial statements have been prepared and approved by the Directors under the historical cost convention, except for the revaluation of certain financial instruments, in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("adopted IFRSs") and interpretations issued by the IFRS interpretations committee and 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.

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.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Group's accounting policies. The areas where significant judgments 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.

This is the first set of the Group's annual financial statements in which IFRS 16 Leasing has been applied. Changes to significant accounting policies are described in note 3.

The consolidated financial statements cover the year ended 31 December 2019 and compromise the consolidated results of the Group described in note 1.

Reverse acquisition of Animalcare Group plc in 2017

As explained in depth in the Financial Statements of 2017 and 2018, on 13 July 2017 the Group completed the reverse acquisition of Ecuphar NV ("Ecuphar"). The accounting policy adopted by the Directors applied the principles of IFRS 3 (Revised) 'Business Combinations' in identifying the accounting parent as Ecuphar NV and the presentation of the Group consolidated statements of the Company (the legal parent) as a continuation of financial statements of the accounting parent or legal subsidiary (Ecuphar NV).

Wholesale divestment 2018

Following the divestment of the Wholesaling business Medini NV registered in Belgium, Legeweg 157i, 8020 Oostkamp on 4 September 2018, the 2018 financial information has been presented in accordance with IFRS 5, to show continuing operations separately from discontinued operations. Both continuing and discontinued operations have been presented to include elements relating to transactions between entities which were previously eliminated in the consolidation as intra-group.

Restatement of segment information

Following review of the revenue by product category disclosures in the 2018 Annual Report, the 2018 comparative segmental information required by IFRS 8 has been restated to better align the classification of a small number of products to the markets in which they operate and are managed by the Group. As a result, Companion Animals revenue has increased by £1.5m, Production Animals decreased by £2.0m and Equine & other increased by £0.5m. There is no impact on total revenues.

3 Summary of significant accounting policies

Going concern

Accounting standards require that the Directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare the financial statements on a going concern basis. The uncertainty as to the future impact on the Group of the recent COVID-19 outbreak has been considered as part of the Group's adoption of the going concern basis.

At 31 December 2019, the Group's financing arrangements consisted of a committed revolving credit facility of €41.5m, a €10m acquisition line, which cannot be utilised to fund our operations, and €4.1m investment loans. All facilities mature in March 2022.

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

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

As at 31 December 2019, all covenant requirements were met with significant headroom across all three measures.

As at 30 April 2020, the net debt to underlying EBITDA ratio was approximately 1.3 times (31 December 2019: 1.4 times). Headroom on the banking facilities, including cash on balance sheet, was £25.8m (31 December 2019: £24.6m)

The Group entered the pandemic period in a strong financial position. In recent weeks we have seen an inevitable impact on the markets where we operate and a resulting downturn in demand starting in the second quarter.

While it's too early to accurately assess the economic impact on the Group, the uncertain future impact of COVID-19 has been considered as part of the Group's adoption of the going concern basis.

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The Group has run a series of future trading scenarios to June 2021 to factor in a range of downside revenue estimates with mitigating actions on cost and cash flow. On revenue we modelled a rolling 12-month downturn of between 13% and 22% compared to 2019, with the most significant impact during a quarter in which lockdown measures are enforced. In the downside scenarios, a prolonged lockdown of six months, or a second wave mirroring Q2 2020, both with subsequent slower recovery, was considered.

To maintain our operational and financial resilience, we have already taken a number of steps to reduce or defer costs to align with revenue, carefully manage inventory in light of demand shifts and implement a capital expenditure freeze for all but essential projects, including key development programmes and manufacturing transfers.

As announced in our trading update of 25 March 2020, the Board deferred the payment of the final dividend. This decision will be reviewed later in the year once we have more clarity about the ongoing effects of the pandemic on our business. At that point the Board will consider what actions are in the best interests of all shareholders.

The results of these scenarios indicate that the Group would operate well within its committed revolving credit facility of €41.5m and maintain headroom against all covenant obligations throughout the period to June 2021. In the event that a covenant test is breached, we would need to work with our banking syndicate to obtain a covenant relaxation or waiver in order for the borrowing facilities to continue to be available. The Directors do, however, note the inherent uncertainty as to the future effect of COVID-19. Further stress testing showed that a potential more prolonged impact outside of those modelled in our future trading scenarios could result in a potential breach of the leverage covenant. In the event that a covenant test is breached, we would need to work with our banking syndicate to obtain a covenant relaxation or waiver in order for the borrowing facilities to continue to be available. The Directors note that this could represent a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. However, the Directors are confident that they would be able to obtain this covenant waiver if required and, therefore, the Directors have a reasonable expectation that the Group will have sufficient cash flow and available resources to continue operating for at least 12 months from the approval date of these Financial Statements. Accordingly, the Directors continue to adopt the going concern basis of preparation.

The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

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

Non-underlying items are material items of income or expense which, because of their nature and the expected frequency of the events giving rise to them, merit separate disclosure.

Other items relates to the amortisation of acquired intangible assets and fair value movements on foreign exchange hedging instruments.

The separate presentation of exceptional and other 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.

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 December 2018 and 2019. Differences resulting from the translation of the financial statements of the parent and the subsidiaries are recognised in other comprehensive income as "cumulative translation differences".

Foreign currency transactions

Transactions denominated in foreign currencies are translated into euros at the exchange rate at the end of the previous month-end. 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.

Business combinations

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date at which the Group obtains control over the entity. The cost of an acquisition is measured as the amount of the consideration transferred to the seller, measured at the acquisition date fair value, and the amount of any non-controlling interest in the acquiree.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

The Group measures goodwill initially at cost at the acquisition date, being:

- the fair value of the consideration transferred to the seller, plus
- the amount of any non-controlling interest in the acquiree, plus
- if the business combination is achieved in stages, the fair value of existing equity interest in the acquiree remeasured at the acquisition date, less
- the fair value of the net identifiable assets acquired and assumed liabilities.

Goodwill is recognised as an intangible asset with any impairment in carrying value being charged to the consolidated income statement. Where the fair value of identifiable assets, liabilities and contingent liabilities exceeds the fair value of consideration paid, the excess is credited in full to the consolidated income statement on acquisition date.

Acquisition costs incurred are expensed and included in general and administrative expenses.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes borrowing costs directly attributable to construction projects if the asset necessarily takes a substantial period of time to get ready for its intended use, it is probable that they will result in future economic benefits to the Group and the cost can be measured reliably. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other 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
Finance leases	4-5 years
Leasehold improvements	5 years or lease term if shorter

Land is not depreciated.

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 has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

The impact of the adoption of IFRS 16 "Leases" on the Group's financial statements is set out in note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Intangible assets

Intangible assets comprise the acquired product portfolios, in-process research and development, licensing and distribution rights and customer acquired in connection with business combinations, product portfolios and product development costs and capitalized software.

The useful life of the intangible assets is as follows:

Capitalized software	5 years
Patents, distribution rights and licences	7-12 years
Product portfolios and product development	10 years
In-process research and development	not amortised
Goodwill	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”.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

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 allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

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 and other intangible assets with indefinite useful economic lives 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.

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.

Financial assets

Financial assets include loans, deposits, receivables measured at amortised cost and available for sale financial investments measured at fair value.

Financial assets measured at amortised cost

The Group has loans and receivables that are measured at amortised cost.

The Group's loans and receivables comprise trade and other receivables, other financial assets and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and – for the purpose of the statement of cash flows – bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.

Financial assets that are classified as loans and receivables are initially measured at fair value plus transaction costs and subsequently at amortised cost using the effective interest rate method (EIR). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included under financial income in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement under other operating expenses or financial expenses.

Available-for-sale financial assets measured at fair value

Available-for-sale financial assets relate to investments that are not initially acquired in view of a short-term sale (shares and securities) and that are not fully consolidated nor equity consolidated. Assets in this category are measured at fair value with the resulting gains and losses being directly recognised in other comprehensive income (equity).

Assets in this category are measured at cost when there is no price input available in an active market and the fair value cannot be measured reliably by applying alternative valuation methods.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

In cases of available-for-sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. If there is objective evidence than an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) or its current fair value, in cases of available-for-sale financial assets. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognised in the income statement. In the event of an impairment loss for available-for-sale financial assets, the accumulated impairment loss is removed from other comprehensive income and recognised in the consolidated statement of profit or loss. Impairment losses on available-for-sale financial assets are not reversed.

The Group applies the expected loss model under IFRS 9 as of 2018 instead of the incurred loss model under IAS 39 for the impairment of trade receivables.

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 (classified as held for trading).

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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 on the balance sheet date.

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 equity 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.

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.

Post-employment benefits
The Group has a defined contribution obligation where the Group pays contributions based on salaries to an insurance company, in accordance with the laws and agreements in each country.

The Belgian defined contribution pension plans are by the law of April 2008 related to supplementary pension plans, subject to minimum guaranteed rates of return, 3.25% on employer contributions and 3.75% on employee contributions. As a result of the law of 18th December 2015 aiming to guarantee the sustainability and the social nature of the supplementary pension plans these minimum guaranteed rates of return have been adjusted. These rates are effective for contributions paid as from 2016 to a new variable minimum return based on the Belgian government bonds, with a minimum of 1.75% and a maximum of 3.75%.

These plans qualify as a defined benefit plan as from 1st January 2016 considering the modified law. Previously, the Group has adopted a retrospective approach whereby the net liability recognised in the statement of financial position is based on the sum of the positive differences, determined by individual plan participants, between the minimum guaranteed reserves and the benefits accrued at the closing date based on the actual rates of return.

Contributions are recognised as expenses for the period in which employees perform the corresponding services. Outstanding payments at the end of the year are shown as other current liabilities.

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.

Revenue recognition

Revenue is recognised in a manner that depicts the pattern of transfer of goods and services to our customers. The amount recognised reflects the amount to which the Group expects to be entitled to in exchange for those goods and services. The Group applies the five-step model to account for revenue arising from contracts with customers.

Sales of goods and services

Revenue is recognised when the performance obligation (the promise to transfer a good or service to a customer) is satisfied at a point in time. This is when the control of these goods or services is transferred to the customer, generally on delivery of the goods. The Group recognises service revenue by reference of the stage of completion. 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 categorized 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

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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 2019

The Group applied IFRS 16 for the first time from 1 January 2019. Except for IFRS 16, 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.

IFRS 16 Leases

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the year 2018, as permitted under the specific transitional provisions in the standard.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Group will, where it acts as a lessee, recognise new assets and liabilities for its operating leases of buildings, vehicles and machinery and equipment. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Group will perform additional depreciations on the right-of-use assets of onerous contracts.

There is no significant impact on the Group's finance leases.

The Group applied IFRS 16 initially on 1 January 2019, using the modified retrospective approach with the Right-of-Use asset equal to the lease liability. Therefore, the comparative information has not been restated.

The Group applies the practical expedient to grandfather the definition of a lease on transition. This means IFRS 16 is applied to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The impact of the adoption of IFRS 16 "Leases" on the Group's financial statements is set out in note 22.

Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2019

The IFRS accounting standards and interpretations that are issued, but net 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.

- Business Combinations (Amendments to the guidance of IFRS 3), effective 1 January 2020 (not yet endorsed by the EU as at 31 December 2019).
- Amendments to the definition of material in IAS 1 and IAS 8, effective 1 January 2020 (not yet endorsed by the EU as at 31 December 2019).
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform, effective 1 January 2020 (not yet endorsed by the EU as at 31 December 2019).
- Amendments to references to the Conceptual Framework in IFRS standards (applicable for annual periods beginning on or after 1 January 2020, but not yet endorsed in the EU)
- IFRS 17 Insurance Contracts, effective 1 January 2021 (not yet endorsed by the EU as at 31 December 2019).

Significant accounting judgements, estimates and assumptions

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 business combinations.

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 cost 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 2019, the Group had £759k (2018: £788k) 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.

The Group may also be required to evaluate some uncertainty surrounding potential liability in relation to uncertain tax positions. Uncertain tax positions (whether assets or liabilities) are recognised using a "probable" threshold in accordance with IAS 12, and they are reflected at the amount expected to be recovered from, or paid to, the taxation authorities. It may also include interpretations of complex tax laws as well as transfer pricing considerations which could be disputed by tax authorities. Assessing uncertain tax positions requires significant judgement from management.

Impairment of goodwill

The Group has goodwill for a total amount of £50,454k (2018: £50,937k) 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 9.

Impairment of slow-moving and obsolete inventory

The Group performs regular stockholding reviews, in conjunction with sales and market information, to help determine any slow-moving or obsolete lines. Where identified, adequate provision is made in the financial statements for writing down or writing off the value of such lines in order to reflect the realisable value of its stock.

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4 Business combinations and disposals of subsidiaries

Disposal of subsidiaries

On 4 September 2018, the Group announced and completed the disposal of its Wholesale business Medini NV registered in Belgium, Legeweg 157i, 8020 Oostkamp.

The Group recognised a loss including expenses in relation to the disposal of £682k during the year ended 31 December 2018. This is based on the total consideration of £2,989k and unaudited net asset value of £3,622k, excluding intercompany debt.

The Group received an initial cash consideration of £2,413k including intercompany loan balances due from the Wholesale Division to other Animalcare Group plc companies. A further £362k was payable to the Group on 30 June 2019 in relation to the remaining intercompany balance owned. For further information concerning the payable to the Group we refer to note 13.

In accordance with IFRS 5, the income statement for the twelve months ended 31 December 2018 has been presented to show continuing operations separately from discontinued operations. Both continuing and discontinued operations have been presented to include elements relating to transactions between entities which were previously eliminated in the consolidation as intra-group. The effect of including these elements is shown as consolidation adjustments.

	Continuing operations 2018 £'000	Discontinued operations 2018 £'000	Consolidation adjustments 2018 £'000	Total continuing and discontinued operations 2018 £'000
Revenue	72,470	16,572	(719)	88,323
Cost of sales	(35,131)	(15,059)	689	(49,501)
Gross profit	37,339	1,513	(30)	38,822
Research and development expenses	(4,762)	–	–	(4,762)
Selling and marketing expenses	(12,435)	(1,111)	46	(13,500)
General and administrative expenses	(16,666)	(387)	(18)	(17,071)
Net other operating expenses	(3,259)	(761)	2	(4,018)
Operating profit/(loss)	217	(746)	–	(529)
Financial expenses	(840)	(39)	20	(859)
Financial income	266	9	(20)	255
Loss before tax	(357)	(776)	–	(1,133)
Income tax	135	–	–	135
Net loss	(222)	(776)	–	(998)

The net cash flow by discontinued operations can be found below:

	For the year ended 31 December 2018 £'000
Net cash flow from operating activities	133
Net cash flow used in investing activities	(94)
Net cash flow used in financing activities	(28)
Net increase/(decrease) of cash and cash equivalents	11

The major classes of assets and liabilities of the Wholesale business at the disposal date can be found below:

	£'000
Non-current assets	
Goodwill	106
Intangible assets	2
Property, plant and equipment	244
Current assets	
Inventories	2,669
Trade receivables	2,451
Other current assets	77
Cash and cash equivalents	10
Total assets classified as held for sale	5,559
Current liabilities	
Borrowings	(9)
Trade payables	(1,690)
Tax payables	(52)
Accrued charges and deferred income	(12)
Other current liabilities	(169)
Non-current liabilities	
Deferred tax liabilities	(5)
Liabilities associated with assets classified as held for sale	(1,937)
Total net assets	3,622
Consideration received or receivable:	
Cash	2,413
Receivable	576
Total disposal consideration	2,989
Carrying amount of net assets sold	(3,622)
Loss on sale before reclassification of foreign currency translation reserve	(633)
Reclassification of foreign currency translation reserve	(49)
Loss on sale	(682)
Loss attributable to minority	(2)
Loss attributable to owners of the parent	(680)
Selling price received in cash	2,413
Cash and cash equivalents transferred	(10)
Total cash flow	2,403

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5 Non-underlying items

	For the year ended 31 December	
	2019 £'000	2018 £'000
Amortisation and impairment of acquisition related intangibles		
Classified within research and development expenses	**1,171**	1,296
Classified within general and administrative expenses	**4,771**	4,789
Classified within net other operating expenses	**1,619**	513
Total amortisation and impairment of acquisition-related intangibles	**7,561**	6,598
Restructuring costs	**1,795**	1,235
Acquisition and integration costs	**550**	485
Impairment on goodwill and intangibles	**–**	796
Brexit-related costs	**243**	–
Divestments and business disposals	**173**	–
Other non-underlying items	**431**	273
Total non-underlying items before taxes	**10,753**	9,387
Tax impact	**(2,236)**	(2,151)
Total non-underlying items after taxes from continuing operations	**8,517**	7,236
Other non-underlying items from discontinued operations	**–**	134
Loss on disposal	**–**	682
Total non-underlying items after taxes	**8,517**	8,052

The amortisation charge of acquisition-related intangibles largely relates to the Esteve acquisition of £2,020k (2018: £2,037k), the Riemser acquisition of £369k (2018: £372k) and the reverse acquisition of Animalcare Group plc of £3,629k (2018: £3,676k).

During the year the Group incurred restructuring costs of £1,795k. This principally relates to the R&D and technical and regulatory team centralisation which resulted in a headcount reduction in the UK and Spain.

The impairment charge of £1,619k for acquisition related intangibles relates to an impairment of projects within the R&D pipeline who are deemed no longer economically viable due to technical difficulties in the development process.

The non-underlying items are excluded for KPI purposes as shown in the section on Key Performance Indicators on page 14.

6 Segment information – from continuing operations

Following the sale of the wholesale business on 4 September 2018, the Group now only reports one segment, being "Pharmaceuticals". This reporting segment is used for management purposes.

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 financial income, plus income taxes and deferred taxes, plus depreciation, amortisation and impairment. Underlying EBITDA equals EBITDA plus non-underlying items.

The following table summarises the segment reporting from continuing operations for 2019 and 2018. As management's controlling instrument is mainly revenue-based, the reporting information does not include assets and liabilities by segment and is as such not presented per segment.

For details on the impact of the adoption of IFRS 16, please see note 22.

	Pharma £'000
For the year ended 31st December 2019	
Revenues	**71,124**
Gross Margin	**36,972**
Gross Margin %	**52%**
Segment underlying EBITDA	**13,137**
Segment underlying EBITDA %	**18%**
Segment EBITDA	**9,925**
Segment EBITDA %	**14%**
For the year ended 31st December 2018	
Revenues	72,470
Gross Margin	37,339
Gross Margin %	52%
Segment underlying EBITDA	11,798
Segment underlying EBITDA %	16%
Segment EBITDA	9,805
Segment EBITDA %	14%

The segment EBITDA is reconciled with the consolidated net profit of the year as follows:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Segment EBITDA	**9,925**	9,805
Depreciation, amortisation and impairment	**(11,216)**	(9,588)
Operating profit	**(1,291)**	217
Financial expenses	**(1,856)**	(840)
Financial income	**1,539**	266
Income taxes	**36**	(869)
Deferred taxes	**234**	1,004
Net (loss)/profit	**(1,338)**	(222)

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Segment assets excluding deferred tax assets and financial instruments located in Belgium, Spain, Portugal, the United Kingdom and other geographies are as follows:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Belgium	**14,325**	18,423
Spain	**2,424**	2,127
Portugal	**3,997**	4,122
UK	**70,572**	73,913
Other	**4,496**	4,379
Non-current assets excluding deferred tax assets and financial instruments	**95,814**	102,964

Revenue by product category

	For the year ended 31 December	
	2019 £'000	2018 (Restated) £'000
Companion animals	**46,464**	46,018
Production animals	**18,844**	20,793
Horses	**5,681**	5,212
Petfood, Instrumentation and Services	**135**	447
Total	**71,124**	72,470

At 31 December 2019, the figures for the year ended 31 December 2018 have been restated (see note 2).

Revenue by geographical area

	For the year ended 31 December	
	2019 £'000	2018 £'000
Belgium	**9,303**	8,260
The Netherlands	**2,106**	1,719
United Kingdom	**14,137**	16,802
Germany	**10,337**	9,784
Spain	**18,644**	20,706
Italy	**6,142**	4,984
Portugal	**4,598**	4,600
European Union – other	**4,925**	4,652
Asia	**471**	558
Middle East Africa	**44**	139
Other	**417**	266
Total	**71,124**	72,470

Revenue by category

	For the year ended 31 December	
	2019 £'000	2018 £'000
Product sales	**69,946**	71,025
Services sales	**1,178**	1,445
Total	**71,124**	72,470

Product revenue is recognised when the performance obligation is satisfied at a point in time. Service revenue is recognised by reference of the stage of completion.

7 Income and expenses – from continuing operations

7.1 Cost of sales – from continuing operations

Cost of sales includes the following expenses:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Purchase of goods and services	**33,079**	33,840
Inventory and other write-downs	**286**	337
Payroll expenses	**308**	222
Other expenses	**479**	732
Total	**34,152**	35,131

7.2 Research and development expenses – from continuing operations

Research and development expenses include the following:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Amortisation and depreciation	**1,597**	1,398
Payroll expenses	**1,516**	2,025
Other R&D expenses	**980**	1,339
Total	**4,093**	4,762

7.3 Selling and marketing expenses – from continuing operations

Selling and marketing expenses include the following:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Transport costs of sold goods	**905**	1,031
Promotion costs	**2,192**	2,160
Payroll expenses	**7,921**	8,516
Amortisation and depreciation	**16**	17
Other	**828**	711
Total	**11,862**	12,435

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7.4 General and administrative expenses – from continuing operations

General and administrative expenses include the following:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Amortisation and depreciation	**7,866**	6,828
Payroll expenses	**3,553**	3,264
Other	**6,075**	6,574
Total	**17,494**	16,666

7.5 Net other operating expenses – from continuing operations

The net other operating expenses can be detailed as follows:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Re-invoicing costs	**(17)**	(24)
Gains/losses on disposals of fixed assets	**3**	(1)
Other operating income	**(94)**	(39)
Impairments	**1,632**	1,308
Other operating expenses	**3,290**	2,015
Total	**4,814**	3,259

The non-cash impairment charge of £1,632k (2018: £1,308k) relates to impairment of acquired or in-process R&D due to regulatory issues (2018: £852k). In 2018 the impairment of goodwill in respect of the non-core Orthopaedics business in Benelux (£456k) was the second part of the impairment.

Other operating expenses for 2019 and 2018 principally relate to restructuring and integration costs.

7.6 Expenses by nature – from continuing operations

	For the year ended 31 December	
	2019 £'000	2018 £'000
Other operating lease rentals	**671**	1,659
Employee expenses	**12,990**	13,805
Depreciation and amortisation	**9,479**	8,298
Transport costs sold goods	**905**	1,031
Promotion costs	**2,192**	2,160
Other operating expense/(income) – note 7.5	**4,814**	3,259
Other expenses	**7,212**	6,910
Total expenses	**38,263**	37,122

7.7 Payroll expenses – from continuing operations

The following table shows the breakdown of payroll expenses for 2019 and 2018:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Wages and salaries	**11,306**	11,696
Social security costs	**1,770**	2,048
Other pension costs	**222**	283
Total	**13,298**	14,027
The monthly average number of employees during the year was as follows:		
Sales and administration	**200**	149
Distribution	**13**	95

The payroll expenses for the year are impacted by the share-based payments. For more information we refer to note 25.

7.8 Financial expenses – from continuing operations

Financial expenses include the following elements:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Interest expense	**618**	637
Foreign currency losses	**1,120**	119
Other financial expenses	**118**	84
Total	**1,856**	840

7.9 Financial income – from continuing operations

Financial income includes the following elements

	For the year ended 31 December	
	2019 £'000	2018 £'000
Foreign currency exchange gains	**1,509**	192
Income from financial assets	**30**	–
Other financial income	**–**	74
Total	**1,539**	266

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7.10 Income tax – from continuing operations

Income tax

The following table shows the breakdown of the tax expense for 2019 and 2018:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Current tax charge	(617)	(963)
Tax adjustments in respect of previous years	653	94
Total current tax charge	36	(869)
Deferred tax – origination and reversal of temporary differences	272	597
Deferred tax – adjustments in respect of previous years	(38)	407
Total deferred tax credit	234	1,004
Total tax income/(expense) for the year	270	135

The total tax expense can be reconciled to the accounting profit as follows:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Loss before tax	(1,608)	(357)
Tax at 19.00% (2018: 19.00%)	305	68
Effect of:		
Overseas tax rates	(181)	(64)
Non-deductible expenses	(146)	(156)
Income not subject to tax	31	215
Derecognition of formerly recognised deferred tax assets	(3)	–
Other permanent tax differences	–	(133)
Other taxes	(60)	(38)
Use of tax losses previously not recognised	109	–
Changes in statutory enacted tax rate	27	(15)
Tax adjustments in respect of previous year	615	501
Non-recognition of deferred tax on current year losses	(429)	(195)
Share-based deductions	(6)	(48)
Other	8	–
Income tax expense as reported in the consolidated income statement	270	135

The tax credit of £2,236k (2018: £2,151k) shown within "non-underlying items" on the face of the consolidated income statement, which forms part of the overall tax credit of £270k (2018: £135k) relates to the items in note 5.

The tax rates used for the 2019 and 2018 reconciliation above are the corporate tax rates of 29.58% (Belgium), 25.00% (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.

Changes to the UK corporation tax rate were substantially enacted as part of the Finance Bill 2017 (on 6 September 2016).

They include reductions to the main rate to reduce the rate to 17.00% from 1 April 2020.

A similar tax reform in Belgium was substantially enacted in December 2017. The tax rate will gradually decrease from 33.99% (2017) to 29.58% in 2018 and 2019 and to 25.00% from 2020 onwards.

Deferred taxes at the balance sheet date have been measured using the enacted tax rates and reflected in these financial statements.

Deferred tax

(a) Recognised deferred tax assets and liabilities

	Assets		Liabilities		Total	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Goodwill	**(7)**	23	**(765)**	(632)	**(772)**	(609)
Intangible assets	**719**	834	**(4,490)**	(4,969)	**(3,771)**	(4,135)
Property, plant and equipment	**(244)**	45	**(155)**	(43)	**(399)**	2
Financial fixed assets	**1**	1	**–**	–	**1**	1
Inventory	**(8)**	3	**(21)**	(21)	**(29)**	(18)
Trade and other payables/receivables	**3**	3	**(1)**	43	**2**	46
Borrowings	**295**	–	**112**	–	**407**	–
Accruals and deferred income	**6**	–	**–**	–	**6**	–
Tax losses carried forward	**759**	790	**144**	101	**903**	891
Total	**1,524**	1,699	**(5,176)**	(5,521)	**(3,652)**	(3,822)

(b) Movements during the year

Movement of deferred taxes during 2019:

	Balance at 1st January 2019 £'000	**Recognised in income £'000**	**Disposal of subsidiaries £'000**	**Foreign exchange adjustments £'000**	**Balance at 31 December 2019 £'000**
Goodwill	**(609)**	**(197)**	**–**	**34**	**(772)**
Intangible assets	**(4,135)**	**405**	**–**	**(41)**	**(3,771)**
Property, plant and equipment	**2**	**(411)**	**–**	**10**	**(399)**
Financial fixed assets	**1**	**–**	**–**	**–**	**1**
Inventory	**(18)**	**(13)**	**–**	**2**	**(29)**
Trade and other payables/receivables	**46**	**(44)**	**–**	**–**	**2**
Accruals and deferred income	**–**	**6**	**–**	**–**	**6**
Borrowings	**–**	**420**	**–**	**(13)**	**407**
Tax losses carry forward and other tax benefits	**891**	**68**	**–**	**(56)**	**903**
Net deferred tax	**(3,822)**	**234**	**–**	**(64)**	**(3,652)**

Movement of deferred taxes during 2018:

	Balance at 1st January 2018 £'000	Recognised in income £'000	Disposal of subsidiaries £'000	Foreign exchange adjustments £'000	Balance at 31 December 2018 £'000
Goodwill	(369)	(234)	–	(6)	(609)
Intangible assets	(5,603)	1,458	–	10	(4,135)
Property, plant and equipment	3	(1)	–	–	2
Financial fixed assets	1	–	–	–	1
Inventory	26	(50)	5	1	(18)
Trade and other payables/receivables	298	(250)	–	(2)	46
Accruals and deferred income	94	(94)	–	–	–
Tax losses carry forward and other tax benefits	699	175	–	17	891
Net deferred tax	(4,851)	1,004	5	20	(3,822)

Tax losses

The Group has unused tax losses, tax credits and notional interest deduction available in an amount of £3,014k for 2019 (2018: £3,141k).

Deferred tax assets have been recognised on available tax losses carried forward for some legal entities, resulting in amounts recognised of £759k (2018: £788k). This was based on management's estimate that sufficient positive taxable basis will be generated in the near future for the related legal entities with fiscal losses.

8 Earnings per share

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holder 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) from continuing and discontinuing operations

	For the year ended 31 December			
	2019 Underlying £'000	2018 Underlying £'000	**2019 Total £'000**	2018 Total £'000
Net profit/(loss) from continuing operations	**7,179**	7,014	**(1,338)**	(222)
Net profit/(loss) from discontinuing operations	**–**	40	**–**	(774)
Net profit attributable to ordinary equity holders of the parent adjusted for the effect of dilution	**7,179**	7,054	**(1,338)**	(996)

Average number of shares (basic and diluted)

	For the year ended 31 December			
Number of shares	**2019 Underlying**	2018 Underlying	**2019 Total**	2018 Total
Weighted average number of ordinary shares for basic earnings per share	**60,057,161**	60,008,714	**60,057,161**	60,008,714
Dilutive potential ordinary shares	**–**	5,452	**–**	5,452
Weighted average number of ordinary shares adjusted for effect of dilution	**60,057,161**	60,014,166	**60,057,161**	60,014,166

Basic earnings/(loss) per share

	For the year ended 31 December			
	2019 Underlying in pence	2018 Underlying in pence	**2019 Total in pence**	2018 Total in pence
From continuing operations attributable to the ordinary equity holders of the Company	**12.0**	11.7	**(2.2)**	(0.4)
From discontinued operation	**0.0**	0.1	**0.0**	(1.3)
Total basic earnings per share attributable to the ordinary equity holders of the Company	**12.0**	11.8	**(2.2)**	(1.7)

Diluted earnings/(loss) per share

	For the year ended 31 December			
	2019 Underlying in pence	2018 Underlying in pence	**2019 Total in pence**	2018 Total in pence
From continuing operations attributable to the ordinary equity holders of the Company	**12.0**	11.7	**(2.2)**	(0.4)
From discontinued operation	**0.0**	0.1	**0.0**	(1.3)
Total basic earnings per share attributable to the ordinary equity holders of the Company	**12.0**	11.8	**(2.2)**	(1.7)

9 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. Following the disposal of the wholesale division during 2018, there is now only one cash-generating unit to allocate the acquired goodwill to, being the pharmaceuticals division. The goodwill has been allocated to the cash-generating unit ("CGU") as follows:

	For the year ended 31 December	
	2019 £'000	2018 £'000
CGU: Pharmaceuticals	**50,454**	50,937
Total	**50,454**	50,937

The changes in the carrying value of the goodwill can be presented as follows for the years 2019 and 2018:

	2018 £'000
At 1st January 2018	51,413
Disposals	(106)
Other	(456)
Currency translation	86
At 31st December 2018	50,937
Currency translation	(483)
At 31st December 2019	**50,454**

During 2018 the goodwill balance decreased as a result of the disposal of Medini in 2018 by £106k (see note 4) and the impairment of goodwill relating to the non-core Orthopaedics business by £456k.

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 the reverse acquisition of Animalcare Group plc in 2017.

The discount rate and growth rate (in perpetuity) used for value in use calculations are as follows:

	2019	2018
Discount rate (pre-tax) %	**11.8**	10.5
Growth rate (in perpetuity) %	**2.0**	2.0

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 beyond this. The cash flow forecasts assume revenue and profit growth in line with our strategic priorities.

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 £17 million 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 £12.7 million, but would not give rise to an impairment.

The CGU is robust to small reductions in short-term cash flows, whether driven by lower sales growth, lower operating profits or lower cash conversion. A 44.0% reduction in total annual cash flows would give rise to an impairment of £100k. An increase in discount rates to 17.1% or a reduction in perpetuity growth rates to (9.6%) would each give rise to an impairment in the CGU of £100k.

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10 Intangible assets

The changes in the carrying value of the intangible assets can be presented as follows for the years 2019 and 2018:

	In-Process R&D £'000	Patents, distribution rights and licences £'000	Product portfolios and product development costs £'000	Capitalized software £'000	Total £'000
Acquisition value					
At 1st January 2018	13,518	17,685	39,875	717	71,795
Additions	3,525	1,340	670	452	5,987
Change due to business combinations	–	(29)	(5)	–	(34)
Currency translation	36	104	128	12	280
Other	–	8	–	–	8
At 31st December 2018	17,079	19,108	40,668	1,181	78,036
Additions	1,582	251	208	302	2,343
Disposals	(1,830)	(62)	(46)	–	(1,938)
Transfers	(88)	(136)	(3)	88	(139)
Currency translation	(217)	(723)	(826)	(61)	(1,827)
Other	1,395	–	(1,395)	6	6
At 31st December 2019	**17,921**	**18,438**	**38,606**	**1,516**	**76,481**
Amortisation					
At 1st January 2018	(1,241)	(4,990)	(11,241)	(286)	(17,758)
Amortisation charge	(1,423)	(2,716)	(3,504)	(322)	(7,965)
Change due to business combinations	–	29	3	–	32
Impairments	(852)	–	–	–	(852)
Transfers	–	–	–	(15)	(15)
Currency translation	(10)	(64)	(76)	(6)	(156)
Other	(10)	20	2	–	12
At 31st December 2018	(3,536)	(7,721)	(14,816)	(629)	(26,702)
Amortisation charge	(1,546)	(2,851)	(3,490)	(335)	(8,222)
Disposals	1,828	62	13	–	1,903
Impairments	(1,632)	–	–	–	(1,632)
Currency translation	–	136	3	–	139
Transfers	72	405	521	39	1,037
Other	1	–	–	(5)	(4)
At 31st December 2019	**(4,813)**	**(9,969)**	**(17,769)**	**(930)**	**(33,481)**
Net carrying value					
At 31st December 2019	**13,108**	**8,469**	**20,837**	**586**	**43,000**
At 31st December 2018	13,543	11,387	25,852	552	51,334

In-process research and development relates to acquired development projects as part of the Esteve business combination in 2015, the reverse acquisition of Animalcare Group plc in 2018 and external and internal in-process R&D costs for which the capitalisation criteria are met. Patents, distribution rights and licences 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 2018.

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 total amortisation charge for 2019 is £8,222k (2018: £7,965k) which is included in lines cost of sales, research and development expenses, sales and marketing expenses and general and administrative expenses of the consolidated income statement. Included in the total amortisation and impairment charge is £7,561k (2018: £6,598k) relating to acquisition related intangibles.

In 2019, Animalcare Group plc recorded an impairment charge of £1,632k (2018: £852k).

In the total additions of £2,343k in 2019 (2018: £5,987k), an amount of £237k (2018: £1,419k) is included for the expected contractual pay-outs under a licence agreement over a two-year period starting on 1st January 2019.

11 Property, plant and equipment

The changes in the carrying value of the property, plant and equipment can be presented as follows for 2019 and 2018:

	Equipment £'000	Office furniture and equipment £'000	Warehouse and office fitting £'000	Leasehold improvements £'000	Total £'000
Acquisition value					
At 1st January 2018	739	1,690	62	528	3,019
Additions	7	204	–	2	213
Change due to business combinations	(138)	(455)	(62)	(39)	(694)
Disposals	–	(46)	–	–	(46)
Currency Translation	2	12	–	3	17
At 31st December 2018	610	1,405	–	494	2,509
Additions	22	18	2	6	48
Disposals	1	–	(2)	–	(1)
Currency Translation	(12)	(59)	–	(15)	(86)
Other	(228)	225	184	(186)	(5)
At 31st December 2019	**393**	**1,589**	**184**	**299**	**2,465**
Depreciation					
At 1st January 2018	(567)	(1,263)	(36)	(328)	(2,194)
Depreciation charge for the year	(52)	(218)	(6)	(57)	(333)
Disposals	–	43	–	–	43
Transfers	–	–	–	15	15
Change due to business combinations	114	258	42	36	450
Currency Translation	(2)	(9)	–	(2)	(13)
At 31st December 2018	(507)	(1,189)	–	(336)	(2,032)
Depreciation charge for the year	(36)	(113)	(19)	(34)	(202)
Disposals	4	(3)	–	–	1
Currency translation	10	52	–	12	74
Other	191	(186)	(105)	106	6
At 31st December 2019	**(338)**	**(1,439)**	**(124)**	**(252)**	**(2,153)**
Net book value					
At 31st December 2019	**55**	**150**	**60**	**47**	**312**
At 31st December 2018	103	216	–	158	477

The investment in property, plant and equipment in 2019 amounted to £48k (2018: £213k) and mainly related to the acquisitions of IT and office equipment.

The Group realised a net gain on disposals of property, plant and equipment of £nil in 2019 (2018: £2k). No impairment of property, plant and equipment was recorded in 2018.

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Finance leases
The carrying value of assets held under finance leases at 31 December 2019 was £60k (2018: £0k). Finance leases mainly related to leased trucks. For a detailed reconciliation of finance lease positions as per 31 December 2018 in accordance with IAS 17 towards IFRS16 lease positions as of 1st January 2019, we refer to note 22.

Borrowing costs
No borrowing costs were capitalised during the year ended 31 December 2019 or 31 December 2018.

12 Inventories
Inventories include the following:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Raw materials	**837**	1,322
Goods purchased for resale	**10,265**	13,569
Total inventories (at cost or net realisable value)	**11,102**	14,891

The amount of inventory recognised as an expense during 2019 amounts to £33,078k (2018: £33,840k). Inventory write-downs during 2019 amounted to £573k (2018: £504k). These costs are classified as a part of the costs of goods sold.

13 Amounts receivable and other non-current assets
Trade receivables include the following:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Trade receivables	**10,971**	13,163
Allowance on trade receivables	**(80)**	(79)
Total	**10,891**	13,084

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 to 90 days.

As at 31 December 2019, trade receivables of an initial value of £80k (2018: £79k) were impaired and fully provided for. The table below shows the changes in the allowance of receivables.

	£'000
At 1st January 2018	(131)
Change due to business combinations	15
Reimbursement of receivables	38
Exchange difference	(1)
At 31st December 2018	(79)
Additional impairments	(32)
Reversal impairment	13
Reclassification	14
Exchange difference	4
At 31st December 2019	**(80)**

Other current assets include the following:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Other receivables	**2,270**	2,051
Deferred charges	**476**	685
Total	**2,746**	2,736

Other current assets amount to £2,746k (2018: £2,736k) at the end of the reporting year and mainly include reclaimable taxes and a receivable resulting from the sale of the Wholesaling business. On 3rd 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 a part of the claim, amounting to €126,430, may be valid. Under the SPA, Vetdis had an obligation to pay Ecuphar €377,854 plus interest on 30th June 2019; Vetdis has refused to pay this. Ecuphar believes that Vetdis has no reason not to pay the amount of €377,854 and Ecuphar has recorded it as a receivable. Ecuphar has offset against this receivable the amount of €126,430 that may be validly due to Vetdis. Discussions are continuing with Vetdis.

Deferred charges mainly include charges to be carried forward totaling £476K (2018: £364K prepayments).

	For the year ended 31 December	
	2019 £'000	2018 £'000
Other non-current assets	**72**	294

For the year ended 31 December 2018 other non-current assets mainly include a receivable of £214k arising on the sale of the Wholesaling business in 2018. In 2019 this receivable was reclassed to other receivables.

14 Cash and cash equivalents

Cash and cash equivalents include the following:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Cash at bank	**6,164**	8,034
Cash equivalents	**1**	1
Total	**6,165**	8,035

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 2019 and 2018.

15 Trade payables

	For the year ended 31 December	
	2019 £'000	2018 £'000
Trade payables	**10,334**	11,907
Total	**10,334**	11,907

The Directors consider that the carrying amount of trade payables approximates to their fair value.

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16 Borrowings

The loans and borrowings include the following:

	Interest rate	Maturity	For the year ended 31 December 2019 £'000	2018 £'000
Other loans	1.56%		**9**	22
Revolving credit facilities	Euribor +1.50%	March 22	**16,845**	25,513
Roll over investment facility	Euribor +1.50%	March 22	**1,358**	2,063
Acquisition loan	Euribor +1.75%	March 22	**3,828**	4,025
Lease liabilities	See note 22		**1,936**	–
Total loans and borrowings			**23,976**	31,623
Of which:				
Non-current			**22,534**	30,975
Current			**1,442**	648

Revolving credit facilities and roll over investment facilities

In mid-2016, the Group refinanced all of its outstanding investment loans with different banks. Financing arrangements were entered into with four Belgian banks. These financing arrangements have been split equally amongst these four banks. The current agreements consist of:

- €41.5 million revolving credit facilities
- €10 million available acquisition financing
- €4.08 million investment loans

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 2022. The investment loans are repaid in 23 monthly instalments.

17 Provisions

Provisions consist of the following:

	For the year ended 31 December 2019 £'000	2018 £'000
Provisions for compensation for damages	**30**	–
Provisions for risks and charges	**88**	81
Total	**118**	81

Provisions for risks and charges amount to £88k as at December 2019 (2018: £81k).

The assessment of the accounting treatment of the Belgian employee benefit contribution plans with a minimal guaranteed return was based on actuarial calculations which resulted in an immaterial impact as only a limited number of individuals can benefit from the plan given the limited fixed amount which is being covered per covered individual. No provision has been recognised as at 31 December 2019 and 2018. As a result no further disclosures have been provided.

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 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 basis and the value of the claim. Discussions are continuing with Vetdis. No formal legal proceedings have been issued against Ecuphar. The Company has not made any provision in respect of this matter in the financial statements.

18 Accrued charges and deferred income

Accrued charges and deferred income consists of the following:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Accrued charges	**1,898**	2,133
Deferred income – due within one year	**173**	190
Other	**(8)**	2
Total due within one year	**2,063**	2,325
Deferred income – due after one year	**599**	617

Accrued charges mainly relate to accrued product development expenses of £790k (2018: £1,188k) and several accrued charges relating to commissions and bonuses in Ecuphar Veterinaria for an amount of £294k (2018: £255k) and £261k (2018: £181k) for Belphar.

Deferred income are contract liabilities that arise from certain services sold by the Group's subsidiary Animalcare Ltd. In return for a single upfront payment, Animalcare Ltd commits to a fixed term contract to provide certain database, pet reunification and other support services to customers. 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 8 and 14 years.

Movements in the Group's deferred income liabilities during the current year are as follows:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Balance at the beginning of the year	**807**	999
Income deferred to following years	**160**	139
Release of income deferred from previous years	**(195)**	(331)
Balance at the end of the year	**772**	807

The deferred income liabilities fall due as follows:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Within one year	**173**	190
After one year	**599**	617
Balance at the end of the year	**772**	807

19 Other current liabilities

Other current liabilities include the following:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Payroll-related liabilities	**1,038**	993
Indirect taxes payable	**999**	1,083
Other current liabilities	**762**	1,788
Total	**2,799**	3,864

As at 31 December 2019 other current liabilities mainly related to outstanding payables at the year-end for expected contractual pay-outs under a licence agreement £769k (2018: £1,419k).

20 Fair value

Financial assets

The carrying value and fair value of the financial assets for 31 December 2019 and 2018 are presented as follows:

	Carrying value		Fair value	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Loans and receivables measured at amortised cost				
Trade and other receivables (current)	**10,891**	13,084	**10,891**	13,084
Trade and other receivables (non-current)	**72**	294	**72**	294
Other financial assets (non-current)	**59**	59	**59**	59
Other current assets	**2,746**	2,736	**2,746**	2,736
Cash and cash equivalents	**6,165**	8,035	**6,165**	8,035
Total loans and other receivables	**19,933**	24,208	**19,933**	24,208

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.
- The fair value of the financial assets at fair value through other comprehensive income was derived from market observable data, namely stock and foreign exchange market data (Level 1 inputs). The Group has no financial instruments carried at fair value in the statement of financial position on 31 December 2019 and 2018.
- 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 2019 and 2018.

Financial liabilities

The carrying value and fair value of the financial liabilities for 31 December 2019 and 2018 are presented as follows:

	Carrying value		Fair value	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Financial liabilities measured at amortised cost				
Borrowings	**22,040**	31,622	**22,040**	31,622
Lease liabilities	**1,936**	–	**1,936**	–
Trade payables	**10,334**	11,907	**10,334**	11,907
Other liabilities	**6,748**	7,823	**6,748**	7,823
Total financial liabilities measured at amortised cost	**41,058**	51,352	**41,058**	51,352
Total non-current	**22,534**	30,975	**22,534**	30,975
Total current	**18,524**	20,377	**18,524**	20,377

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. The financial liabilities are calculated based on level 1.

21 Equity

Share capital

Number of shares	For the year ended 31 December 2019 £'000	2018 £'000
Allotted, called up and fully paid Ordinary Shares of 20p each	**60,057,161**	60,057,161

Number of shares	For the year ended 31 December 2019 £'000	2018 £'000
Allotted, called up and fully paid Ordinary Shares of 20p each	**12,012**	12,012

The following share transactions have taken place during the year ended 31 December 2019:

	For the year ended 31 December 2019 £'000	£'000
At 1 January 2019	**60,057,161**	**12,012**
Exercise of share options	**–**	**–**
At 31 December 2019	**60,057,161**	**12,012**

Dividends

	For the year ended 31 December 2019 £'000	2018 £'000
Ordinary final dividend paid for the year ended 31 December 2017 of 2.0p per share	**–**	1,200
Ordinary interim dividend paid for the period ended 30 June 2018 of 2.0 per share	**–**	1,201
Ordinary final dividend paid for the period ended 31 December 2018 of 2.4p per share	**1,441**	–
Ordinary interim dividend paid for the period ended 30th June 2019 of 2.0 per share	**1,201**	–
	2,642	2,401

22 Changes to accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019. On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 Leases.

The Group leases various offices, vehicles and IT equipment. Rental contracts are typically made for fixed periods of 3 to 9 years, possibly with extension options; one contract has a lease term of more than 10 years. Lease terms are negotiated on an individual basis and contain a 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.

Until 1 January 2019, the Group recognised operating lease expenses on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the lessee's incremental borrowing rate. The Group's weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.20%.

Payments associated with short-term leases and 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.

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A reconciliation between IAS 17 and IFRS 16 is shown below for the position at 1 January 2019:

	£'000
Non-cancellable operating lease commitments disclosed as at 31 December 2018	2,760
Short-term and low-value leases recognised on a straight-line basis as expense	(62)
Weighted average incremental borrowing rate at 1st January 2019	3.2%
Discounted using the Group's incremental borrowing rate	2,606
Add: finance lease liabilities recognised as at 31 December 2018	22
Lease liability recognised as at 1st January 2019	2,628
Of which:	
Current lease liabilities	910
Non-current lease liabilities	1,718

All right-of-use assets were measured at the amount equal to the lease liability. There were no onerous contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The balance sheet shows the following amounts relating to leases as at 31 December 2019:

	31 December 2019 £'000	1st January 2019 £'000
Buildings	**893**	1,275
Vehicles	**989**	1,269
Other	**35**	84
Total right-of-use assets	**1,917**	2,628
Current lease liabilities	**830**	910
Non-current lease liabilities	**1,106**	1,718
Total lease liabilities	**1,936**	2,628

Below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	Land and buildings	Vehicles	Other	Total
Acquisition value				
At 31 December 2018	–	–	–	–
Initial measurement at 1st January	1,275	1,269	84	2,628
Additions	28	424	–	452
Disposals and contract modifications	–	(56)	–	(56)
Currency Translation	(32)	(50)	(3)	(85)
At 31 December 2019	**1,271**	**1,587**	**81**	**2,939**
Depreciation				
At 31 December 2018	–	–	–	–
Depreciation charge for the year	(387)	(634)	(47)	(1,068)
Disposals and contract modifications	–	20	–	20
Currency translation	9	16	1	26
At 31 December 2019	**(378)**	**(598)**	**(46)**	**(1,022)**
Net book value	**893**	**989**	**35**	**1,917**

Below are the values for the movements in lease liability during the year:

	Lease Liability £'000
At 1st January 2019	2,628
Additions	452
Disposals	(33)
Interest expense	74
Payments	(1,127)
CTA	(58)
At 31 December 2019	**1,936**

The following amounts are recognised in the income statement:

	For the year ended 31 December 2019 £'000
Depreciation expense of right-of-use assets	**(1,068)**
Interest expense on lease liabilities	**(74)**
(Loss)/gain on disposal of IFRS 16 assets	**(3)**
Expense relating to short-term leases and low-value assets	**(119)**
Total amount recognised in the income statement	**(1,264)**

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.

Impact on EBITDA and earnings per share

EBITDA and underlying EBITDA increased by £1,127k for the year 2019 as a result of the change in accounting policy. There is no material impact on net result and earnings per share for the year.

Practical expedients applied

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

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application, and;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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23 Risks

In the exercise of its business activity, the Group is exposed to credit, liquidity and market risks.

Credit risk

As at 31 December 2019 the Group's maximum exposure to credit risk is £10,891k, which is the amount of the trade receivables in the consolidated financial statements (2018: £13,084k).

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
31st December 2019	**10,891**	**9,410**	**1,340**	**47**	**(9)**	**12**	**91**
31st December 2018	13,084	10,034	2,461	344	99	26	120
Expected loss rate		0.1%	0.4%	0.3%	0.5%	1.7%	70.7%
Expected credit loss	80	11	5	0	0	0	64

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 2019, the Group had the following sources of liquidity available:

- Cash and cash equivalents: £6,165k
- Undrawn credit facilities with several banks: £(18,462)k
- Undrawn acquisition financing: £(4,679)k

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 31st December 2019					
Borrowings	**(612)**	**(21,428)**	**–**	**–**	**(22,040)**
Lease liabilities	**(830)**	**(493)**	**(677)**	**–**	**(2,000)**
Trade payables	**(10,334)**	**–**	**–**	**–**	**(10,334)**
Other current liabilities	**(2,799)**	**–**	**–**	**–**	**(2,799)**
Total	**(14,575)**	**(21,921)**	**(677)**	**–**	**(37,173)**

	< 1 year £'000	1 to 3 years £'000	4-5 years £'000	> 5 years £'000	Total £'000
At 31st December 2018					
Borrowings	(648)	(30,975)	–	–	(31,623)
Trade payables	(11,907)	–	–	–	(11,907)
Other current liabilities	(3,864)	–	–	–	(3,864)
Total	**(16,419)**	**(30,975)**	**–**	**–**	**(47,394)**

The amounts disclosed in the table above are the contractual undiscounted cash flows. 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:

	For the year ended 31 December			
	Assets 2019 £'000	Assets 2018 £'000	**Liabilities 2019 £'000**	Liabilities 2018 £'000
EUR/GBP	**6,407**	380	**5,973**	2,686
GBP/EUR	**899**		**333**	
EUR/USD	**115**	–	**–**	77
GBP/USD	**7**	352	**350**	87
EUR/DKK	**–**	–	**1**	7

The cumulative effect of the foreign currency translation effects is reported under other comprehensive income in the statement of financial position and amounts to £2,550k (2018: £3,345k).

At the end of the reporting year, the Group is mainly exposed to the EUR and the USD. The following table details the effect of a 10.00% increase and decrease in the exchange rate of these currencies against sterling when applied to outstanding monetary items denominated in foreign currency as at 31 December 2019. A positive number indicates that an increase in profit would arise from a 10.00% change in value of sterling against these currencies, a negative number indicates that a decrease would arise.

	Strengthening £'000	Weakening £'000
EUR	(3)	23
USD	31	(39)

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 £260k lower/higher in 2019 and £414k lower/higher in 2018.

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 shareholder's equity which amounts to £81,889k as at 31 December 2019 (2018: £86,592k).

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 2019 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

24 Remuneration paid to the Company's auditor

	For the year ended 31 December	
	2019 £'000	2018 £'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	**60**	34
The audit of the Company's subsidiaries pursuant to legislation	**120**	123
Total audit fees	**180**	157
Other services	**–**	13
Total non-audit fees	**–**	13
Total auditor' remuneration	**180**	170

25 Share-based payments

The Group operates a number of equity-settled share-based payment programmes that allow employees to acquire shares of the Group. The Group also operates Long Term Incentive Plans for certain members of the Leadership Team and Executives 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 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 model, in conjunction with a third-party valuation specialist.

The fair values of options granted under all other share option schemes have been determined using the Black–Scholes option pricing model.

Animalcare Group plc Executive Share Option Scheme

Under this scheme, options may be granted to certain executives and senior employees of the Group to subscribe for new shares in the Company at a fixed price equal to the market value at the time of grant. The options are exercisable three years after the date of grant. Once vested, options must be exercised within six years of the date of grant. The exercise of these options is not subject to any performance criteria.

SAYE Option Scheme

This scheme is open to all UK employees to encourage share ownership. Share options are granted at an option price fixed at a 20.00% discount to the market value at the start of the savings period. The SAYE options vest and are exercisable three years after the date of grant and must ordinarily be exercised within six months of the completion of the relevant savings period.

Details of the movement in these share option schemes during the year are as follows:

	EMI		SAYE	
	Options	Price £	Options	Price £
Outstanding at 1st January 2019	80,000	2.014	30,466	2.280
Lapsed during the year	(7,500)	2.145	(23,837)	2.280
Exercised during the year	–	–	–	–
Open at 31 December 2019	**72,500**	**2.00**	**6,629**	**2.28**

The weighted average inputs into the Black–Scholes model at the time of grant were as follows:

	EMI Scheme	SAYE Scheme
Weighted average share price	193p	284p
Weighted average exercise price	193p	228p
Expected volatility	44.70%	40.00%
Expected life	3.0 years	3.1 years
Risk-free rate	**0.50%**	**0.50%**

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous three years. The expected lives used in the model were estimated based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioral considerations.

Long Term Incentive Plan ("LTIP")

On 6 June 2019, nil-cost options over a total of 425,279 ordinary shares with a nominal value of 20p per share ("the Options") were awarded to certain Executive Directors and PDMRs of the Company and to members of the Group Leadership Team pursuant to the Company's Long Term Incentive Plan.

The awards will normally vest three years after the date of grant subject to the following performance criteria being met over the three year financial period ending 31 December 2021. 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%
8%	100%
Between 3% and 8%	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%

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 Long Term Incentive Plan have been determined using both the Black–Scholes and Monte Carlo simulation model, in conjunction with a third-party valuation specialist.

Inputs into the option pricing models were as follows:

Weighted average share price	£1.60
Weighted average exercise price	£nil
Expected volatility	30.50%
Expected life	3.0 years
Expected dividend yield	2.80%
Fair value per option – EPS tranche	£1.47
Fair value per option – TSR tranche	£0.98
Risk-free rate	0.50%

The Company recognised a total charge in respect of share-based payments of £72k (2018: £12k).

26 Related party transactions

This disclosure provides an overview of all transactions with related parties.

Transactions between the Company and its subsidiaries, which are related parties, are eliminated in the consolidated financial statements and no information is provided hereon in this section.

Remuneration of the Directors, who are the key management personnel of the Group, is included in the Annual Remuneration Report on page ••.

Transactions with shareholders accounted for a total amount of £0k in 2019 (2018: £0k).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

27 Overview of consolidated entities

Name	Country of incorporation	Registered address	% equity interest 2019	% equity interest 2018
Ecuphar NV	Belgium	Legeweg 157i, 8020 Oostkamp	**100%**	100%
Orthopaedics.be NV	Belgium	Legeweg 157i, 8020 Oostkamp	**100%**	100%
Ecuphar BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	**100%**	100%
Ecuphar Veterinary Products BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	**100%**	100%
Ornis SA	France	Rue de Roubaix 33, 59200 Tourcoing	**100%**	100%
Ecuphar GmbH	Germany	Brandteichstraße 20, 17489 Greifswald	**100%**	100%
Euracon Pharma Consulting und Trading GmbH	Germany	Max-Planck Str. 11, 85716 Unterschleißheim	**100%**	100%
Ecuphar Veterinaria SA	Spain	Avenida Río de Janeiro, 60 – 66, planta 13, 08016 Barcelona	**100%**	100%
Ecuphar Italia	Italy	Viale Francesco Restelli, 3/7, piano 1, 20124 Milano	**100%**	100%
Belphar	Portugal	R. Carlos Alberto da Mota Pinto, Nº 17- 3ºA, 1070-313 Lisabon	**100%**	100%
Animalcare plc	United Kingdom	Unit 7, 10 Great North Way, York Business Park, Nether Poppleton, York, YO26 6RB	**100%**	100%
Animalcare Ltd	United Kingdom	Unit 7, 10 Great North Way, York Business Park, Nether Poppleton, York, YO26 6RB	**100%**	100%

28 Events after balance sheet date

The Directors consider the Covid-19 pandemic to be a material non-adjusting post balance sheet event. The circumstances surrounding the pandemic and the subsequent economic impact did not arise until after 31 December 2019, and therefore no adjustment to the Group’s financial statements as at 31 December 2019 has been made. The estimated potential effect on the Group’s future financial results and financial position is considered in the Chief Financial Officer’s Review on page 18 and within note 3.

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	For the year ended 31 December 2019 £'000	2018 £'000
Non-current assets			
Investments in subsidiary companies	6	**147,743**	147,743
Deferred tax asset	10	**5**	7
		147,748	147,750
Current assets			
Trade and other receivables	7	**2,758**	997
Cash and cash equivalents	8	**553**	1,411
		3,311	2,408
Total assets		**151,059**	150,158
Current liabilities			
Trade and other payables	9	**(368)**	(4,096)
		(368)	(4,096)
Net current liabilities		**2,943**	(1,688)
Total liabilities		**(368)**	(4,096)
Net assets		**150,691**	146,062
Capital and reserves			
Called-up share capital	11	**12,012**	12,012
Share premium account		**132,729**	132,729
Retained earnings		**5,950**	1,321
Equity attributable to equity holders of the parent	16	**150,691**	146,062

The financial statements of Animalcare Group plc, registered number 1058015, were approved by the Board of Directors and authorised for issue on 29 May 2020. They were signed on their behalf by:

Jennifer Winter
Chief Executive Officer

Chris Brewster
Chief Financial Officer

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended 31 December 2019

	Note	Share	Total £'000	Non-controlling interest £'000	Total equity £'000
Balance at 1st January 2018		11,983	132,588	2,244	146,815
Total comprehensive loss for the period		–	–	1,478	1,478
Transactions with owners of the Company, recognised in equity:					
Dividends paid		–	–	(2,401)	(2,401)
Exercise of share options		29	141	–	169
Share-based payments		–	–	1	1
Balance at 1st January 2019		12,012	132,729	1,321	146,062
Total comprehensive profit for the period	3			7,230	7,230
Transactions with owners of the Company, recognised in equity:					
Dividends paid	5			(2,642)	(2,642)
Share-based payments	12			41	41
Balance at 31 December 2019		**12,012**	**132,729**	**5,950**	**150,691**

COMPANY CASH FLOW STATEMENT

Period ended 31 December 2019

		For the year ended 31 December	
	Note	2019 £'000	2018 £'000
Comprehensive income for the year before tax		**7,122**	1,109
Adjustments for:			
Finance (income)/cost		**27**	(5)
Share-based payment expense	12	**41**	1
Operating cash flows before movements in working capital		**7,190**	1,105
(Increase)/decrease in receivables	7	**(885)**	13
(Decrease)/increase in payables	9	**(4,494)**	411
Net cash flow from operating activities		**1,811**	1,529
Investing activities:			
Interest (paid)/received		**(27)**	5
Net cash (used in)/generated by investing activities		**(27)**	5
Financing:			
Receipts from issue of share capital	11	**–**	169
Equity dividends paid	5	**(2,642)**	(2,401)
Net cash used in financing activities		**(2,642)**	(2,232)
Net decrease in cash and cash equivalents		**(858)**	(698)
Cash and cash equivalents at start of year		**1,411**	2,109
Cash and cash equivalents at end of year		**553**	1,411
Comprising:			
Cash and cash equivalents	8	**553**	1,411

NOTES TO FINANCIAL STATEMENTS

Period ended 31 December 2019

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 2019 to 31 December 2019.

The financial statements have been prepared and approved by the Directors under the historical cost convention, except for the revaluation of certain financial instruments, in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("adopted IFRSs") and 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 £7,230 (2018: £1,478k).

The accounting policies of the Company are the same as for the Group, where applicable.

Going concern

The Directors have assessed the Company's ability to continue in operational existence for the foreseeable future. The uncertainty as to the future impact on the Company of the recent COVID-19 outbreak has been considered as part of the assessment performed by the Group. A detailed summary of the scenarios considered by the Group is included in note 3 to the consolidated financial statements. Further stress testing showed a potential more prolonged impact outside of the scenarios modelled by the Group could result in a potential breach of the Group's leverage covenant and, as a consequence, there is an inherent uncertainty as to the future effect of COVID-19 on both the Group and Company. However, the Directors are confident that they would be able to obtain a covenant waiver if required and, therefore, the Directors have a reasonable expectation that the Group and Company will have sufficient cash flow and resources to continue operating for at least 12 months from the approval date of these Financial Statements. Accordingly, the Directors continue to adopt the going concern basis of preparation. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Intangible assets

The Company recognises intangible assets at cost less accumulated amortisation and impairment losses. Intangible assets arise both as a result of applying IFRS 3 which requires the separate recognition of intangible assets from goodwill on all business combinations from 1st January 2004, and from the purchase of software (that is separable from any associated hardware).

Intangible assets are amortised on a straight-line basis over their useful economic lives as follows:

Software	Estimated useful life – 3 years

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.

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. The Company also operates Long Term Incentive Plans for certain members of the Leadership Team and Executives 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 have been determined using both the Black–Scholes and Monte Carlo simulation model, in conjunction with a third-party valuation specialist.

The fair values of options granted under all other share option schemes have been determined using the Black–Scholes option pricing model.

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.

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 2019

The Company applies IFRS 16 from 1st January 2019. Except for IFRS 16, 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 other standard. IFRS 16 has no material impact on the Company financial statements.

NOTES TO FINANCIAL STATEMENTS
Period ended 31 December 2019

2 Non-recurring items

	Note	2019 £'000	2018 £'000
Professional and other fees relating to the reverse acquisition			–
Acquisition expenses		**15**	–
Restructuring and integration costs		**204**	218
Compensation for loss of office	4	**97**	203
Other exceptional costs		**8**	–
Total exceptional and other items		**324**	421

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.

Restructuring and integration costs totalling £204,000 mainly relate to professional fees in respect of Group-wide employment, legal and tax structuring advice. Prior year restructuring and integration costs totalling £218,000 mainly relate to exceptional recruitment costs in respect of Jenny Winter, CEO, and tax structuring advice.

Compensation for loss of office of £97,000 represents the salary paid to Mr Menneer during his gardening leave from 1st January 2019 to 26th April 2019 (and from 27th April to 31 December 2018 in the comparative period).

3 Total comprehensive income for the year/period

	2019 £'000	2018 £'000
Total comprehensive income for the year/period has been arrived at after charging/(crediting):		
Finance costs/(income)	**27**	(5)
Dividend income received from subsidiary – Ecuphar NV	**7,897**	2,247

The above items are those charged/credited to total comprehensive income/(loss) only. Full details on items charged/(credited) to non-recurring items are contained in note 2.

The analysis of remuneration paid to the Company's auditor for the audit of the Company's financial statements is as follows:

	2019 £'000	2018 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**60**	34
Total audit fees	**60**	34

4 Directors' remuneration and interests

Emoluments

The various elements of remuneration received by each Director were as follows:

Year ended 31 December 2019	Salary £'000	Bonus £'000	Company pension contributions £'000	Benefits £'000	Compensation for loss of office £'000	Total £'000
J Boone*	**70**	**–**	**–**	**–**	**–**	**70**
C Brewster	**205**	**41**	**25**	**13**	**–**	**284**
C Cardon	**35**	**–**	**–**	**–**	**–**	**35**
M Coucke*	**40**	**–**	**–**	**–**	**–**	**40**
N Downshire*	**40**	**–**	**–**	**–**	**–**	**40**
J S Lambert* (resigned 25th June 2019)	**20**	**–**	**–**	**–**	**–**	**20**
I D Menneer[1]	**–**	**–**	**–**	**–**	**90**	**90**
E Torr*	**40**	**–**	**–**	**–**	**–**	**40**
J Winter	**285**	**71**	**–**	**14**	**–**	**370**
Total	**735**	**112**	**25**	**27**	**90**	**989**

NOTES TO FINANCIAL STATEMENTS

Period ended 31 December 2019

Year ended 31 December 2018	Salary £'000	Bonus £'000	Company pension contributions £'000	Benefits £'000	Compensation for loss of office £'000	Total £'000
J Boone*	70	–	–	–	–	70
C Brewster	205	–	22	12	–	239
C Cardon	35	–	–	–	–	35
M Coucke*	40	–	–	–	–	40
N Downshire*	40	–	–	–	–	40
J S Lambert* (resigned 25th June 2019)	40	–	–	–	–	40
I D Menneer[1]	32	–	28	3	203	266
E Torr*	40	–	–	–	–	40
J Winter	71	–	–	3	–	74
Total	**573**	**–**	**50**	**18**	**203**	**844**

* Indicates Non-Executive Directors

[1] I D Menneer resigned as a Director of the Company on 26th April 2018 and was placed on gardening leave for his 12 months' notice period. Compensation for loss of office represents the salary paid to Mr Menneer from 1st January 2019 to 17th April 2019 while on gardening leave

[2] Compensation for loss of office represents the salary paid to Mr Menneer from 27th April 2018 to 31 December 2018 while on gardening leave

The approved bonus awards to C Brewster and J Winter were accrued as at 31 December 2019 and will be settled post year end.

All Company pension contributions relate to defined contribution pension schemes. Benefits consist of company car and private medical insurance.

Share options

On 6 June 2019, nil-cost options over a total of 254,206 ordinary shares with a nominal value of 20p per share ("the Options") were awarded to certain Executive Directors of the Company pursuant to the Company's Long Term Incentive Plan ("the LTIP"). Full details of the LTIP are disclosed in note 12.

After the grant of the Options, the Executive Directors set out below held the following Options:

PDMR	Options Awarded	Total Options
Jennifer Winter	177,570	177,570
Chris Brewster	76,636	76,636

During the prior year Iain Menneer exercised 5,142 share options granted in 2014 under the Save As You Earn scheme (SAYE) at an option price of £1.05 per share. The value of this exercise was £5,399. The SAYE options held by Chris Brewster, totalling options over 8,571 shares, lapsed during the year. As at 31 December 2018, no options were held or granted to the Directors.

5 Dividends

	2019 £'000	2018 £'000
Ordinary final dividend paid for the period ended 31 December 2017 of 2.0p per share	**–**	1,200
Ordinary interim dividend paid for the period ended 30th June 2018 of 2.0 per share	**–**	1,201
Ordinary final dividend paid for the period ended 31 December 2018 of 2.4p per share	**1,441**	–
Ordinary interim dividend paid for the period ended 30th June 2019 of 2.0 per share	**1,201**	–
	2,642	2,401

6 Investments in subsidiaries

Subsidiary undertakings

Cost	2019 £'000
At 1st January 2019 and 31 December 2019	**147,743**

The Directors consider that the carrying value of the investments are supported by future cash flows of the subsidiaries. A list of the subsidiary undertakings, all of which are wholly owned, is given below. During the prior year, the Company disposed of Medini NV, its wholesale operation.

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 Ltd	United Kingdom	Unit 7, 10 Great North Way, York Business Park, Nether Poppleton, York YO26 6RB	Developer and marketer of veterinary pharmaceuticals	Ordinary
Orthopaedics.be NV	Belgium	Legeweg 157i, 8020 Oostkamp	Wholesale of veterinary products	Ordinary
Ecuphar BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	Marketer of veterinary pharmaceuticals	Ordinary
Ecuphar Veterinary Products BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	Non-trading	Ordinary
Ornis SARL	France	Rue de Roubaix 33, 59200 Tourcoing	Non-trading	Ordinary
Ecuphar GmbH	Germany	Brandteichstraße 20, 17489 Greifswald	Marketer of veterinary pharmaceuticals	Ordinary
Euracon GmBH	Germany	Max-Planck Str. 11, 85716 Unterschleißheim	Non-trading	Ordinary
Ecuphar Veterinaria SL	Spain	Avenida Río de Janeiro, 60 – 66, planta 13, 08016 Barcelona	Developer and marketer of veterinary pharmaceuticals	Ordinary
Ecuphar Italia SRL	Italy	Viale Francesco Restelli, 3/7, piano 1, 20124 Milano	Marketer of veterinary pharmaceuticals	Ordinary
Belphar IDA	Portugal	R. Carlos Alberto da Mota Pinto, Nº 17- 3ºA, 1070-313 Lisabon	Marketer of veterinary pharmaceuticals	Ordinary

7 Other financial assets

Trade and other receivables

	2019 £'000	2018 £'000
Corporation tax – Group relief	**1,089**	979
Other receivables	**871**	3
Prepayments and accrued income	**32**	15
Amounts due from subsidiaries	**766**	–
	2,758	997

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

NOTES TO FINANCIAL STATEMENTS
Period ended 31 December 2019

8 Cash and cash equivalents

	2019 £'000	2018 £'000
Cash and cash equivalents	**553**	1,411

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less.

9 Other financial liabilities

	2019 £'000	2018 £'000
Trade payables	**248**	255
Amounts payable to subsidiaries	**–**	3,396
Other taxes and social security costs	**61**	82
Other creditors	**11**	328
Accruals	**48**	35
	368	4,096

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. The amount payable to subsidiaries is free of interest and repayable on demand.

10 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	Share-based payments £'000	Other £'000	Total £'000
Balance at 1st January 2018	(5)	(5)	(2)	(12)
Charge/(credit) to income	–	5	–	5
Balance at 31 December 2018	(5)	–	(2)	(7)
Charge/(credit) to income	2	–	–	2
At 31 December 2019	(3)	–	(2)	(5)

Deferred tax balances have been calculated at an effective rate of 17%, being the substantively enacted rate at 31 December 2019.

11 Share capital

	No.	£'000
Allotted, called up and fully paid at 1st January 2019 and 31 December 2019	60,057,161	12,012

12 Share-based payments

During the year the Company operated three share option schemes as described below:

Animalcare Group plc Executive Share Option Scheme

Under this scheme, options may be granted to certain executives and senior employees of the Group to subscribe for new shares in the Company at a fixed price equal to the market value at the time of grant. The options are exercisable three years after the date of grant. Once vested, options must be exercised within six years of the date of grant. The exercise of these options is not subject to any performance criteria.

SAYE Option Scheme

This scheme is open to all UK employees to encourage share ownership. Share options are granted at an option price fixed at a 20% discount to the market value at the start of the savings period. The SAYE options vest and are exercisable three years after the date of grant and must ordinarily be exercised within six months of the completion of the relevant savings period.

Details of the movement in these share option schemes during the year are as follows:

	EMI		SAYE	
	Options	Price £	Options	Price £
Outstanding at 1st January 2019	80,000	2.014	30,466	2.280
Granted during the period				
Lapsed during the year	(7,500)	2.145	(23,837)	2.280
Exercised during the period				
Open at 31 December 2019				
Exercisable at the end of the year	**72,500**	**2.00**	**6,629**	**2.28**

The weighted average inputs into the Black–Scholes model at the time of grant were as follows:

	EMI Scheme	SAYE Scheme
Weighted average share price	£1.93	£2.84
Weighted average exercise price	£1.93	£2.28
Expected volatility	44.7%	40.0%
Expected life	3.0 years	3.1 years
Risk-free rate	0.5%	0.5%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous three years. The expected lives used in the model were estimated based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Long Term incentive plan ("LTIP")

On 6 June 2019, nil-cost options over a total of 425,279 ordinary shares with a nominal value of 20p per share ("the Options") were awarded to certain Executive Directors and PDMRs of the Company and to members of the Group Leadership Team pursuant to the Company's Long Term Incentive Plan.

The awards will normally vest three years after the date of grant subject to the following performance criteria being met over the three year financial period ending 31 December 2021. 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%
8%	100%
Between 3% and 8%	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%

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 Long Term Incentive Plan have been determined using both the Black–Scholes and Monte Carlo simulation model, in conjunction with a third-party valuation specialist.

Inputs into the option pricing models were as follows:

Weighted average share price	£1.60
Weighted average exercise price	£nil
Expected volatility	30.5%
Expected life	3.0 years
Expected dividend yield	2.8%
Fair value per option – EPS tranche	£1.47
Fair value per option – TSR tranche	£0.98
Risk-free rate	0.5%

The Company recognised a total charge in respect of share-based payments of £41,000 (2018: £1,000).

13 Related party transactions

Trading transactions

During the years ended 31 December 2019 and 31 December 2018, the following trading transactions took place between the Company and its subsidiaries, Animalcare Ltd and Ecuphar NV.

2019	**Ecuphar NV £’000**	**Animalcare Ltd £’000**	**Total £’000**
Management charges levied	**887**	**–**	**887**

2018	Ecuphar NV £’000	Animalcare Ltd £’000	Total £’000
Management charges levied	302	120	422

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel, is provided in note 4.

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E Torr
J Boone
J S Lambert
J Winter
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M Coucke

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