Animalcare Group plc

ANNUAL REPORT
for the year ended 31st December 2017

Developing a stronger future **together**

Animalcare Group plc

www.animalcaregroup.co.uk
Stock Code: ANCR

WELCOME TO
ANIMALCARE GROUP PLC

Animalcare Group plc is **focused on growing** its veterinary business.

Animalcare Group plc is a UK AIM listed veterinary sales, marketing and product development company resulting from the integration of Animalcare and Ecuphar.

We invest in developing our own pharmaceuticals products as well as seeking distribution partnerships and product acquisitions.

Our vision is to become a leading pan-European veterinary pharmaceutical business.

We develop and sell goods and services to veterinary professionals for use in companion and production animals with direct sales in 7 countries Europe.

We have two divisions:

- **PHARMACEUTICALS**
- **WHOLESALE**

READ ABOUT OUR DIVISIONS
ON PAGE 05

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Read about our performance at:
www.animalcaregroup.co.uk/year-in-review

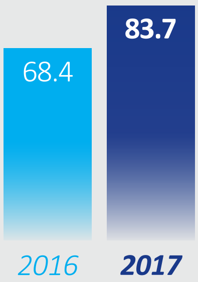
LOOK OUT FOR THESE ICONS WHEN NAVIGATING THIS REPORT

See further content online at **www.animalcaregroup.co.uk**

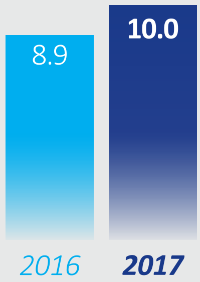
View more content within this report

OUR HIGHLIGHTS

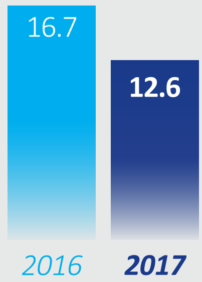
Revenue (£m)
+22.4%



Underlying EBITDA (£m)*
+11.9%



Underlying Basic EPS (p)*
–24.6%



*Underlying measures exclude non-underlying items as analysed in note 5.

READ ABOUT OUR PERFORMANCE ON PAGES 13 TO 25

FINANCIAL PERFORMANCE

- Revenue growth of 22.4% at AER (9.6% on a proforma basis) with strong growth in Companian Animals and Production Animals.
- Underlying EBITDA increased by 11.9% at AER however declined by 8.5% on a proforma basis due to in particular changing sales mix and overhead investment.
- Reported operating profit decreased to £1.2m (2016:£6.0m)
- Net debt at £25.9m representing 2.2 times proforma Underlying EBITDA.
- Propose a total dividend of 6.7p, consistent with total dividends for the previous year ended 30th June 2017.

OPERATING PROGRESS

- Distribution contracts ended to bring cross selling opportunities in house from Q4 2018.
- Integration is wide-ranging and in progress, with priority focus on supply chain, systems (HR & IT) and product development. NPD projects have been prioritised to maximise return on investment.
- Personnel reorganisation underway, with internal promotions made to lead Technical and Commercial Development and Export late in the year. Post year-end, new Country Managers have been recruited into our UK and Spanish operations.

CHAIRMAN'S STATEMENT

"We believe we have created a platform for strong future growth"

JAN BOONE
NON EXECUTIVE CHAIRMAN

2017 was a transformational year for Animalcare Group plc. Whilst characterised by continued organic growth, the most dominant factor during the year was the reverse acquisition of Ecuphar NV ("Ecuphar"). The transaction completed on 13th July 2017 and our statutory results for the year ended December 2017 reflect a full 12 months contribution from Ecuphar and five and a half months of Animalcare Group plc ("Animalcare"), as previously constituted. 2016 comparatives are only for the Ecuphar business.

Financial Trading

Group revenue increased by 22.4% to £83.7m (2016: £68.4m) with 11.3% organic growth within the Ecuphar business which contributed £76.1m to overall Group revenues and £7.6m from the original Animalcare business. Underlying EBITDA (which excludes fair value adjustments on acquired inventory, amortisation of acquired intangibles and acquisition and integration costs) increased by 11.9% to £10.0m (2016: £8.9m) with £1.6m contributed by the Animalcare business. This performance primarily reflects the impact of lower gross margins, investments to support future growth and the disposal of Nutriscience which Ecuphar sold in October 2016. Including non-underlying items, the Group's profit before tax decreased to £0.5m (2016: £5.1m). The Group generated £2.6m (2016: £9.3m) net cash from operations which included a cash outflow from non-underlying items totalling £3.8m.

Further details on business performance can be found in the CEO Review and CFO Review respectively.

Board

Following the acquisition, the executive Directors comprised Chris Cardon, who took on the role of Chief Executive Officer for the enlarged group, supported by Iain Menneer as Chief Operating Officer and Walter Beyers as Chief Financial Officer. In September 2017 Chris Brewster, who at the time of the acquisition stood down as a Board Director but remained within the business, was reappointed to the Board as Chief Financial Officer, replacing Walter Beyers who resigned to pursue other interests. More recently Iain Menneer stood down as Chief Operating Officer. I would like to take the opportunity to recognise both Iain's and Walter's contributions and we wish them well for the future.

Dividend

The Board is proposing a final dividend of 2.0 pence per share, which when added to the second interim dividend of 4.7 pence per shares gives a total dividend of 6.7 pence per share since the reverse acquisition. This final dividend is subject to shareholder approval at the Annual General Meeting on 27th June 2018 and will be paid on 6th July 2018 to shareholders on the register at the close of business on 8th June 2018.

Product Development

A key strategy for growth remains the continued cultivation of a strong new product development pipeline. In 2017 we launched Acecare, a sedative, from Animalcare's original UK pipeline and sales have performed in line with internal forecasts. We have deliberately focused the development team on 17 active projects and we have a steady flow of products that are going through registration and are expected to launch in 2018 and 2019.

Summary and Outlook

Having brought together two highly complementary businesses, in particular with regard to our respective geographic markets, product portfolios and product development pipelines, we are growing a successful pan-European animal health business. We have the opportunity to continue this growth through further strategic acquisitions, but also through organic growth focused on existing products and our product development pipeline, as well as the synergies and benefits of cross-selling which we expect to see impacting our Q4 2018 performance and more meaningfully in 2019. We believe we have created a platform for strong future growth and I look forward to updating on our progress.

JAN BOONE
NON-EXECUTIVE CHAIRMAN

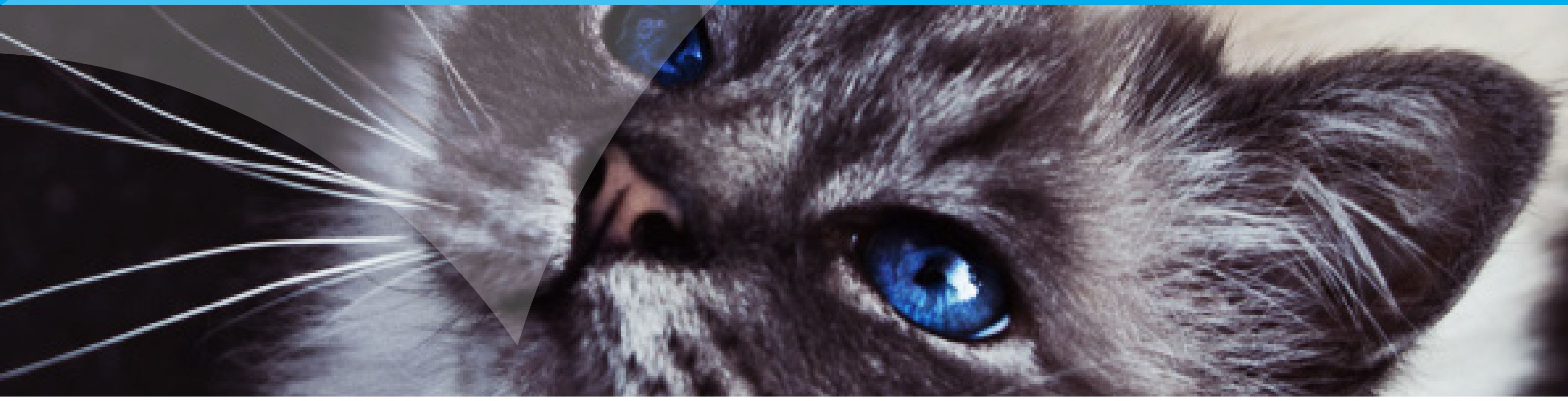
READ ABOUT OUR GROUP AT A GLANCE ON PAGES 04 AND 05

READ ABOUT OUR CORPORATE GOVERNANCE ON PAGES 28 TO 31

OUR INVESTMENT CASE

We believe there are **five compelling reasons** to **invest** in **Animalcare Group plc**:

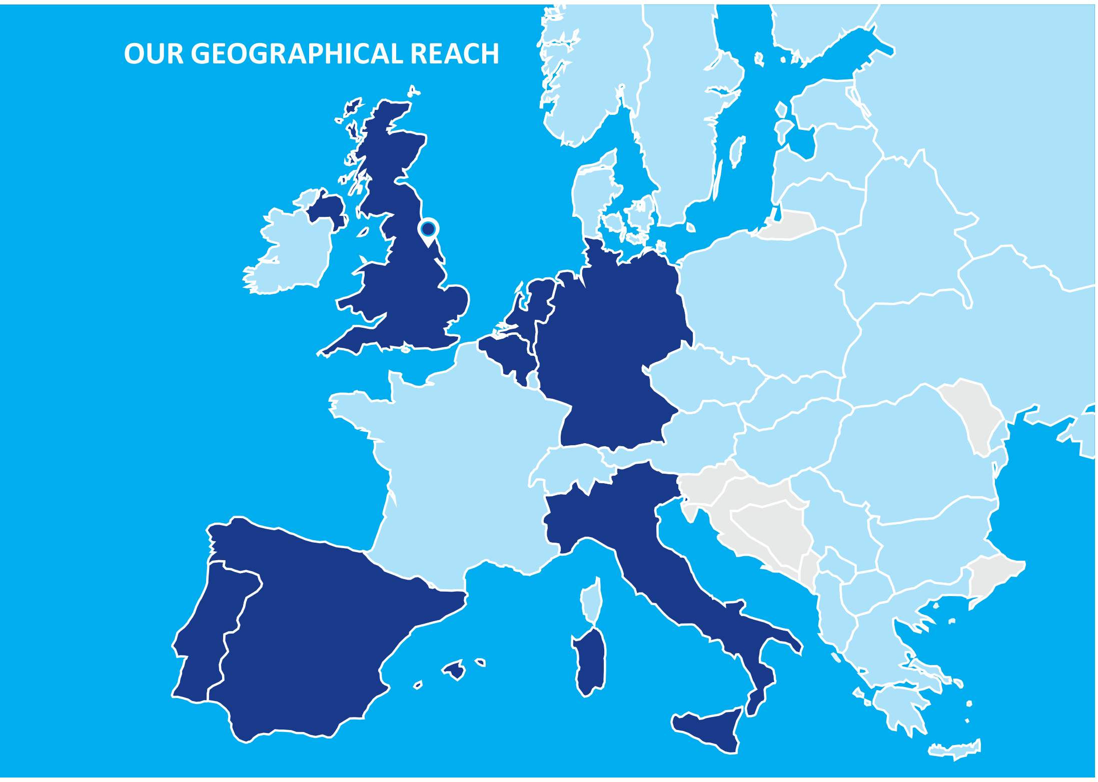
Animalcare benefits from its transformational acquisition	Bringing together two highly complementary businesses, with regard to their geographic markets, product portfolios and new product development pipelines, the reverse acquisition provides enhanced scale and capabilities for long-term growth. READ ABOUT OUR GROUP AT A GLANCE ON PAGES 04 AND 05
Animalcare is a sustainable growing business in a growing market	Unaudited pro forma aggregated financials for the year ended 31 December 2017 show combined revenues of £91.1m and underlying EBITDA of £11.8m with double digit profit growth expected against these results.
Animalcare is cash generative	and in a strong financial position to invest in future growth.
Animalcare is dividend paying	and given its strong balance sheet expects to maintain its current dividend policy whilst continuing to invest in new product development.
Animalcare has a clear strategy for growth	through an enhanced geographic footprint and sales, marketing and distribution network, and a strong product development pipeline. READ ABOUT OUR STRATEGY ON PAGES 10 AND 11



OUR GROUP AT A GLANCE

Animalcare Group plc is a pan-European sales, marketing and product development company serving the Animal Health market.

OUR GEOGRAPHICAL REACH



DIRECT SALES IN 7 COUNTRIES

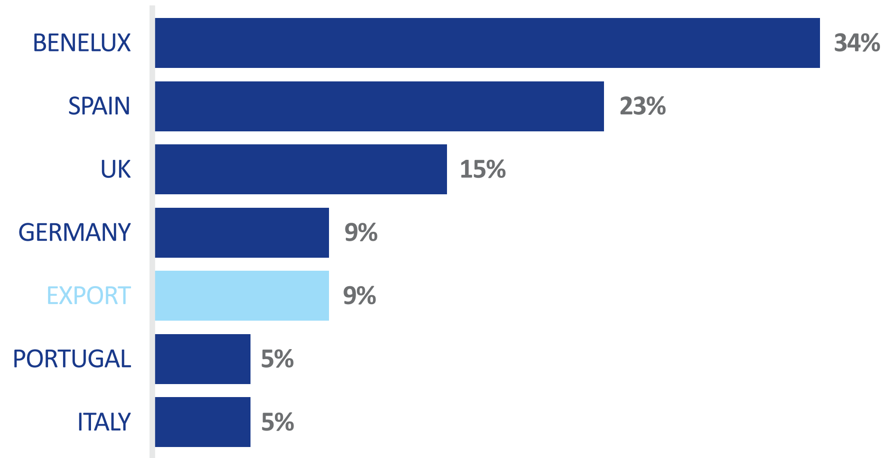
- York, UK
- Barcelona, Spain
- Bruges, Belgium
- Lisbon, Portugal
- Milan, Italy
- Greifswald, Germany
- Breda, Netherlands

OUR HEAD OFFICE

OWN OPERATIONS

DISTRIBUTION NETWORK

OUR TURNOVER* BY TERRITORY



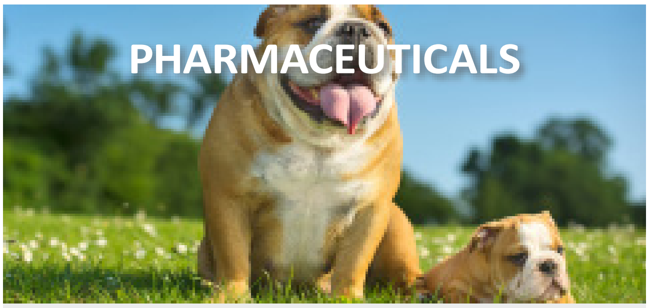
* Based on 2017 pro-forma financial information.

SALES MIX BY REVENUE*

READ ABOUT OUR MARKETPLACE ON PAGES 06 AND 07

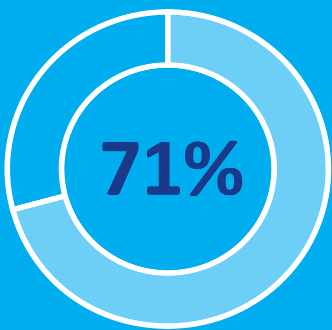
OUR NEW GROUP

Our business is divided into two divisions: pharmaceuticals and wholesale.



Overview

Products are supplied to animal health professionals both directly or through national distribution networks and fall into two categories: regulated pharmaceuticals and over the counter products. Products are either owned by the Group or on distribution from third parties. The Group invests significantly in its in-house development pipeline. The portfolio is very broad with over 300 products including pharmaceuticals, vaccines, biocides and nutraceuticals. The Group focuses on certain niche therapy areas including odontology, dermatology, otology and surgery/anaesthesia.



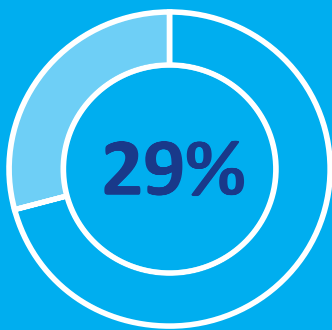
Revenue
£59.7m

Performance

- Strong revenue growth of 28.4% to £59.7m reflecting 12.1% internal growth and 16.3% from acquisition.
- Represents 97% of Group underlying EBITDA with EBITDA margin of 15.6%.

Overview

Medini is the wholesaling division based close to Bruges, supplying medical, veterinary and paramedical products to veterinary professionals throughout Belgium. The business has been trading for 25 years and is well established in this stable market. The extensive range of over 5,000 products includes own label and branded items ranging from small disposable items to larger capital equipment and diagnostic instruments. The company is a specialist in the supply of surgical instruments.



Revenue
£23.9m

Performance

- 9.7% organic sales growth versus 2017 to £23.9m.
- Gross margin remained stable compared to 2016 at 10.1%.
- Represents 3% of Group underlying EBITDA.

READ ABOUT OUR PERFORMANCE
ON PAGES 13 TO 25

OUR MARKETPLACE

Over the last five years sales of medicines for companion animals have overtaken sales of farm animal products, rising from 47% to 53% of the European market, with sales in 2017 of approximately €3.17bn (www.animalhealtheurope.eu).

One in three homes in Europe is estimated to keep a pet prompting total care spending of €38bn. Pet numbers increased by 10% between 2012 and 2015 to 623 million in contrast to a decline in farm animal numbers by 9% to 296 million.

Of the European medicines sector, valued at approximately €6bn in 2017, sales of vaccines and parasiticides represent 30% each, €1.8bn, with antimicrobials falling to 13% market share. The market as a whole grew by 9% in that period.

Animal health markets in both Europe and the US are now dominated by their respective companion animal sectors. The latter valued at approximately $5.9bn (www.ahi.org).

Our Primary Market

The enlarged Group now generates 57% of its revenues from its sales in the Companion Animal and Equine sector and is therefore well placed to benefit from the rise in European pet ownership and spend. The Group still generates strong sales from the Production Animal sector in niche, profitable product areas.

The Group comprises direct sales and marketing operations in 7 European territories (see graphic on page 4). Distribution to European and Rest of World geographic territories is managed by our export team. The pharmaceutical licensing is managed through our in-house regulatory team or local consultants where necessary. Our revenue from export sales has increased steadily in recent years and offers great potential for future growth.

The Group will continue to serve the Small and Large Animal markets and bring new products to each segment where there is a commercial and strategic fit.

OUR MARKETS BY GEOGRAPHY

The export business continued its strong growth in 2017 with sales improving 24% versus prior year. Animalcare Group now exports to 38 countries in Europe, Asia, Australasia, Africa and South America through 86 different distribution partners. The addition of the Animalcare Ltd small animal products has created a well-balanced export portfolio of Farm Animal, Equine, Small Animal and OTC brands. To facilitate the increased complexity of the export business and to help drive further growth, a dedicated export division has been formed with Martin Gore, Group Head of Export. The export division has associates from all three exporting centres in the business (Animalcare Ltd (UK), Ecuphar Veterinaria (ES) and Ecuphar NV (BE)) with over 40 years' combined experience in the Animal Health market between them. We believe with the formation of this team and the increased focus and resources on exports, the export business will continue to contribute strongly to the Group's sales and profits.

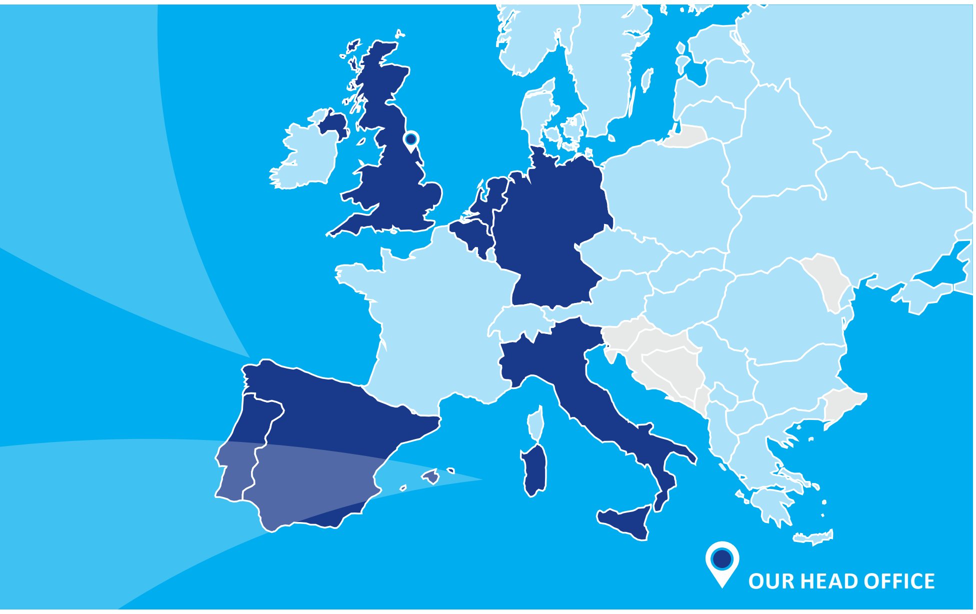
During the year there was significant growth in the key core export markets of the UK, France, the Nordics and Ireland supported by growth in newer markets including New Zealand and Taiwan. The growth of recently launched products (Aqupharm and Isocare) were ahead of management expectations, while sales of core established brands Danilon, Otoclean and Caniquantel all showed double digit growth. Dinalgen sales were behind prior year but this was largely down to phasing of purchasing patterns in major markets.

Looking forward, there will be some natural slippage in the short term for the export business as sales through distribution partners in countries where we have a direct sales force are moved in-house. While this decreases export sales it will be profit enhancing for the Group. This has not affected the export division in 2017 and will have minimal effect in 2018, but notice has now been served on distribution partners in Germany, Spain, Portugal, Italy and Belgium with the full benefits being gained from 2019 onwards.

The focus for 2018 is on 'quick wins', especially expanding the OTC business and rationalising distributors. Contracts have been signed for OTC products in new markets in the Middle East and China with sales expected to come on line mid 2018 (assuming no regulatory issues). Longer term we see good opportunities for growth in our pharmaceutical exports, especially in the fast growing Asian market.

There are continued concerns surrounding the use of antibiotics in Western and Northern Europe countries that may affect future sales of our antibiotics range.

In summary, the export business is now a significant contributor to the Group and by creating a dedicated export division we see potential for long-term growth.



Revenue own Country Organisation:
91%

Revenue Export:
9%

Market trends and what this means for Animalcare

- Increase in demand for new treatments and medicines – extension of current vaccine development programme
- Decrease in use of anti-infectives across Western Europe – is both a risk in some areas but an opportunity in others, such as increased use of vaccines
- Unmet needs of small animals – incontinence and anxiety market is growing
- Minor species – rabbits become important

Market trends and what this means for Animalcare

- More consolidation-our personal veterinary clinic approach becomes more appreciated
- Product lines increase-resulting in a slight increase of working capital

OUR STRONGER BUSINESS MODEL

Our key resources

OUR PEOPLE
Our People are key to our continued growth

READ ABOUT OUR PEOPLE ON PAGE 15

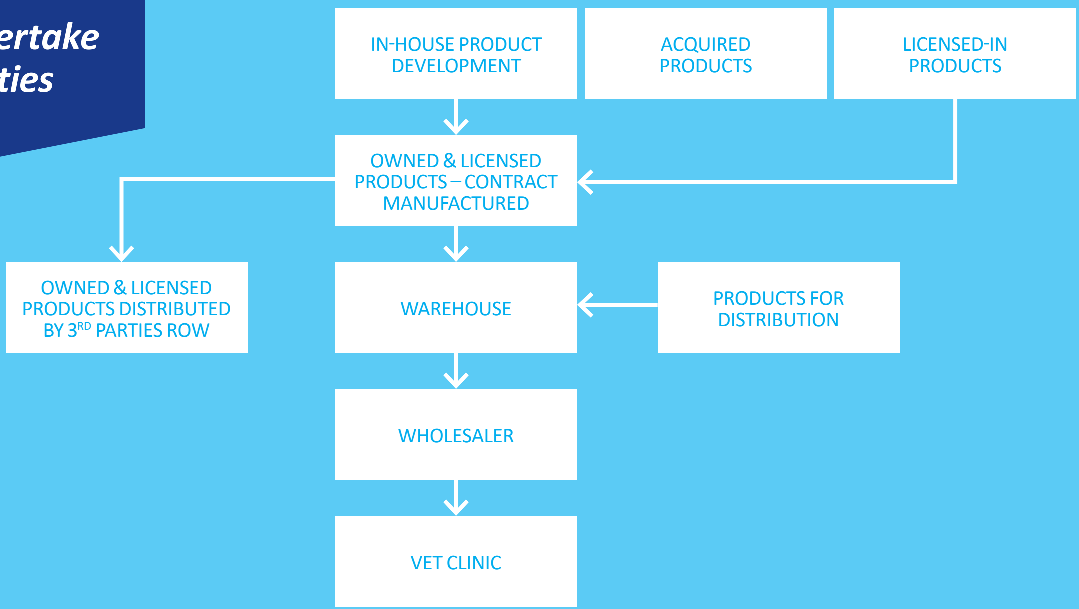
RELATIONSHIPS
We have strong relationships with distribution partners, strategic alliances, wholesalers, CMOs and distributors

LICENCES
Animalcare owns around 50 licensed drugs. We have greatly increased the depth and diversity of our licensed product range

KNOWLEDGE
We have knowledge of regulations and business development

CAPITAL
Capital supports the product development pipeline and enables us to make investments that support our growth

Enable us to undertake our key activities



Underpinned by our competitive advantage

SCALE
We will be able to leverage cross-selling opportunities that have been enabled through our acquisition. We also have a larger geographical presence that creates a pan-European animal health platform

STRONGER GROUP
Our transformational acquisition enhances our capabilities and our offering. We have a broader product pipeline

READ ABOUT OUR GROUP AT A GLANCE ON PAGES 04 AND 05

OUR PEOPLE
Our experienced management team, as well as our well-trained employees, provide us with the capabilities to deliver future growth

We create value for our stakeholders

EMPLOYEES
We provide training and development and talent management

SHAREHOLDERS
We are a cash generative, dividend paying, growing company with a solid pipeline of new products

END USERS
We provide our end users with increased depth and diversity of the licensed veterinary medicines product range

DISTRIBUTION PARTNERS
We create value through a strong relationship, providing fair negotiation and visibility on revenues

HOW WILL THE ACQUISITION BENEFIT THE GROUP?

The integration of Animalcare and Ecuphar has the potential to create significant long-term value.

BUSINESS MODEL

- Combination of own products and licences
- Focus on both NPD and sales & marketing
- Experienced and capable management enhanced

GEOGRAPHICAL SALES OPPORTUNITIES

- Cross-selling through higher margin own sales channels
- Expanding export territories and Product Portfolio

READ ABOUT OUR MARKETPLACE
ON PAGES 06 AND 07

COMMERCIAL ADVANTAGES OF CRITICAL MASS

- Critical scale in the large and growing animal health market
- Appealing distribution partner
- Potential significant operating efficiencies once integration complete
- Opportunities in fragmented market for value-enhancing acquisitions

OUR STRATEGY

Animalcare will continue to focus on delivering growth both organically and through selective acquisitions to accelerate its overarching strategy of becoming a leader in the European animal health market.

The Group's core areas of strategic focus will be on:

STRATEGIC OBJECTIVE	DESCRIPTION	PERFORMANCE	FOCUS AND GOALS FOR 2018
1 Initiating cross-selling	Initiate opportunities to cross-sell both Animalcare's and Ecuphar's products across existing customers and distribution channels	Ecuphar UK Sales transferred to Animalcare UK team Contracts terminated with former Animalcare Distribution Partners in Germany, Spain, Portugal and Italy to allow direct sales through Ecuphar sales teams Full portfolio of 50 licensed drugs, eight vaccines and over 100 care and nutraceuticals to be sold direct in seven countries and exported to 50 markets globally Fully utilise 100 sales representatives and 28 agents across Europe New distribution partners in NZ and Taiwan established in 2017	Impact of successful cross-selling strategy to be seen in Q4 2018, with a meaningful impact on profit margins in 2019 Ramp up sales of full portfolio with new distribution partners in NZ and Taiwan, including Aqupharm and Isocare which have just gained regulatory approvals Seeking additional regulatory approvals for our existing products in new territories Appointed new distribution partners for territories not currently covered Roll-out of Companion Animal Identification products beyond the UK
2 Implementing effective business integration	Combining product development activities, providing the technology and systems to drive product quality improvement programmes and by optimising the Enlarged Group's supply chain	In-house product development pipeline projects to prioritise 17 projects to maximise return on investment R&D Group consolidated with full audit of the regulatory, quality, technical support and product development Focus on supply change management and the opportunity to leverage larger critical mass Introduction of a scalable and cost-effective finance structure Consolidation of export markets, through cancellation of former Animalcare distribution contracts in regions where the enlarged group sell directly	R&D consolidation to be completed and synergies delivered Finalisation of new product development for launch in 2019 Group-wide introduction of common supply chain management systems to best manage stock and working capital New finance structure to optimise tax efficiency and fulfil governance requirements Further consolidation of distributors, suppliers and centralised export back office functions Introduction of Group-wide communications and IT platforms Align sales and marketing areas of excellence focusing on higher margin products
3 Developing relationships	Developing the Enlarged Group's wider network of partnerships and strategic alliances in order to increase its exposure, as licensor and licensee, to global animal health leaders	The Enlarged group has a well-established footprint that will prove attractive to US / Asia companies seeking European market entry First licensing agreement signed with US-based Nutramax Distribution of *Cosequin*, a nutritional supplement for canine joint health	Four major projects are expected to be licensed-in for distribution Further development of licensing partnerships to provide further growth
4 Identifying acquisitions	Leveraging its platform by identifying selective value-accretive acquisitions that can broaden the pan-European sales, marketing and distribution platform of the Enlarged Group	Acquisition of Ecuphar NV by Animalcare Group plc constituting a reverse takeover Acquisition provides direct access to UK markets for the first time, in addition to Belgium, Spain, Portugal, Italy, Germany, and the Netherlands	Acquisitions pipeline identified Currently looking at a number of opportunities although focus is on current integration Areas of interest would include France, Ireland and Scandinavia Acquisitions should have their own direct sales and own products to cross-sell, a pipeline of new products and be profitable and immediately earnings enhancing

STRATEGIC OBJECTIVE	DESCRIPTION	PERFORMANCE	FOCUS AND GOALS FOR 2018
5 Diversifying the Enlarged Group's portfolio	Diversifying the Enlarged Group's portfolio of products into additional therapeutic areas within the companion animal, as well as production animal and equine, markets	Product portfolio expanded to over 300 products including pharmaceuticals, vaccines, biocides and nutraceuticals New products launched during 2017, including Acecare and Enrocare The Group has a well-established development pipeline for new veterinary pharmaceutical products One centralised registration was submitted in 2017	Further progress of the pipeline to continue Continued registration of relevant new products through 2018 Expected launch of new products where registration has already been submitted Ongoing progress with product improvement and maintenance projects New registrations and launches for existing products in new territories Focus on new areas such as surgery, pain relief, anti-inflammatories and vaccines
6 Broaden the Enlarged Group's pipeline innovations	Continuing the shift towards broadening the Enlarged Group's pipeline innovations to include novel therapies	We have reviewed and prioritised the pipeline on current development projects which will allow us to focus on novel developments in the future.	Further progress to broaden the product development pipeline to include novel therapies

OUR OBJECTIVES IN THE SHORT, MEDIUM AND LONG-TERM

SHORT-TERM

- *Initiate cross selling opportunities*
- *Implement business integration. This will involve combining product development activities and optimising the supply chain*

MID-TERM

- *Develop wider network partnership opportunities*
- *Leverage platform with accretive opportunities*
- *Diversify the product portfolio into additional therapeutic areas*

LONGER-TERM

- *Shift towards broadening pipeline to include novel therapies*

READ ABOUT OUR KPIS ON PAGE 12

OUR KEY PERFORMANCE INDICATORS

KPI	WHY THIS IS IMPORTANT	PERFORMANCE (STATUTORY)	RELEVANCE TO STRATEGY
Revenue growth	Our revenue growth encompasses all aspects of our strategy and demonstrates our success in key areas including leveraging our platform both organically and via selective acquisitions and the delivery of revenue from new products launched from our product development pipeline.	(£m) *2016* 68.4 ***2017*** **83.7** The Group delivered total revenue growth of 22.4%, of which 11.3% was from the continuing Ecuphar business.	Through maximising existing portfolio revenues, delivering new products from our pipeline and via our network of partnerships, we aim to achieve organic growth in excess of our blended market growth rate, broadly matching revenue and profit growth in the medium term. Acquired businesses have to be a good fit with our operating culture and strategy in addition to being value-enhancing financially.
Basic Underlying Earnings per share (“EPS”)	The measure of how successful we are in growing our business organically and by acquisition coupled with strong financial disciplines, including those related to tax and capital allocation, is captured in the Group’s underlying earnings per share.	(p) *2016* 16.7 ***2017*** **12.6** The decrease reflects the significant increase in the adjusted weighted average number of shares following the reverse acquisition.	Underlying EPS is a key measure of our overall performance and the return we generate for shareholders before exceptional items. We aim to grow the business from 2018 to deliver year-on-year earnings enhancement.
Cash generated from operations	Cash generation is a measure of the quality of earnings and having strong operating cash flow enables the business to generate the funds we need to invest in our business to enhance future growth, maintain its strong balance sheet and deliver dividend flow.	(£m) *2016* 9.3 ***2017*** **2.4** The decrease reflects the significant cash outflow from non-underlying items and increased working capital.	Our stated aim is to deliver strong cash generation which provides the Group with freedom to pursue its strategic goals of organic growth, acquisitions and continue dividends without becoming highly leveraged.
Research and Development expenditure (including additions to intangibles)	Sustainable investment in research and development contributes significantly to organic growth.	(£m) *2016* 4.3 ***2017*** **3.9**	New product launches underpin certain elements of the Group strategy including diversification of the product portfolio and continuing the shift towards broadening innovation to include novel therapies.

READ ABOUT OUR PERFORMANCE ON PAGES 13 TO 25

READ ABOUT OUR STRATEGY ON PAGES 10 AND 11

CHIEF EXECUTIVE OFFICER'S REVIEW

"The key aim for our business is to create a cash-generative, growing pan-European animal health company"

CHRIS CARDON
CHIEF EXECUTIVE OFFICER

Introduction and Summary of the Group

The key aim for our business is to create a cash-generative, growing pan-European animal health company and in July 2017 Animalcare Group plc completed the acquisition of Ecuphar NV ("Ecuphar"), an acquisition that constituted a reverse takeover. This brought together two businesses to create an enlarged group focused on the development and marketing of innovative products providing significant benefits to animal health.

The business now has a considerably enlarged footprint and sales network with direct sales teams in 7 European countries and an export network that covers over 38 countries across Europe, Asia, Australasia, Africa and South America through 86 different distribution partners. Within our product portfolio we have 50 licensed drugs, eight vaccines and over 100 care and nutraceutical products employing around 100 sales representatives and 28 agents marketing these products to our global customer base.

Shareholders in Animalcare are now invested in a substantially increased pan-European animal health platform with the following characteristics and strategic objectives:

- **Delivering double digit profit growth**: We expect to deliver further incremental organic growth across revenues, EBITDA and underlying net earnings with the potential to achieve double-digit profit growth.
- **Cash generative**: Continuing focus on cash generation allows us to maintain dividend payments as well as invest in our business to drive future growth.
- **Strong organic growth potential**: We now have an increased geographic footprint for cross-selling; we expect to extract further synergies taking effect in 2018 but with a more meaningful impact in 2019, and we expect to deliver further growth through our new product development pipeline.
- **Acquisitive growth potential**: Our strong balance sheet and scale also opens opportunities for value-accretive acquisitions which would allow us to target direct sales in other geographical territories.

Business Review

The Group is focused on the development and sale of veterinary products in the companion animal, production animal and equine markets and is divided into two segments: Pharmaceuticals and Wholesale.

Pharmaceuticals

The Pharmaceuticals segment develops and markets veterinary pharmaceutical products which are supplied to animal health professionals both directly and through our international distribution network. Our products fall into two categories: regulated pharmaceuticals and over the counter products. Products are either owned by the Group or licensed on long-term distribution agreements with third parties. We have a very broad portfolio of over 300 products including pharmaceuticals, vaccines, biocides and nutraceuticals and the Group focuses on certain niche therapy areas including odontology, dermatology, otology and surgery/anaesthesia. As a Group we invest significantly in our in-house development pipeline which I discuss later on in my report.

CHIEF EXECUTIVE OFFICER'S REVIEW

Following the acquisition this segment now includes the products that were previously categorised as Licensed Veterinary Medicines, Animal Welfare and Companion Animal Identification.

Based on the statutory results for the year ended 31st December 2017, sales in this division (net of intercompany sales) increased by 28.4% to £59.7m (2016: £46.5m), which now accounts for 71.4% of total revenues. The £13.2m year-on-year increase is attributable to an additional £7.6m of sales derived from acquisition growth, with the balance generated through organic growth within the Ecuphar business.

Organic growth was driven by a number of factors including a very strong performance from sales into the Production Animals market, as well as strong growth from Companion Animals.

In the division our top 20 pharmaceutical products, which account for 51% of this division's total sales, grew by 15.1% in 2017. Looking at our direct sales markets, Orozyme, the first product of the Company that was developed, continues to hold a strong position in the Oro-dental area. Direct sales for this product grew by 11% and we expect to see further growth in this area through the launch of new innovative products in 2018.

Leisguard, our treatment against leishmaniosis in dogs, showed strong sales across our Mediterranean footprint and we expect to see future growth for this product in 2018 in Scandinavia. Prazitel and Caniquantel, which both play an important role in the area of anti-parasitic treatment, also grew well in 2017.

We were pleased with the performance across our export network. Our key core export markets of France, the Nordics and UK and Ireland showed significant growth and we expect to benefit from ongoing direct sales in the UK now following the acquisition. During the period we signed new distribution agreements to cover New Zealand and Taiwan and both regions granted regulatory approval to sell Aqupharm (intravenous fluid range) and Isocare (anaesthesia), our recently launched products for use in surgery.

This contributed to the growth of Aqupharm and Isocare sales, which were ahead of management expectations, and sales of core established brands such as Danilon (anti-inflammatory), Otoclean (dermatology) and Caniquantel (anti-parasitics) all showed double digit growth. Dinalgen (anti-inflammatory) sales were behind prior year but this was largely down to phasing of purchasing patterns in major markets.

The positive impact of the cross-selling opportunity was minimal during the year. We expect to see this contribute to our organic growth during Q4 2018, later than originally anticipated, with a more meaningful contribution in 2019.

The underlying EBITDA performance of our Pharmaceuticals division increased by 15.1% to £9.7m (97.1% of the Group's underlying EBITDA) with reported EBITDA reducing to £7.5m (2016: £10.2m). Whilst this underlying growth was driven by the contribution of the acquisition, the organic performance in this division was impacted by lower gross margins, mainly due to a changing sales mix following higher growth from lower margin Production Animal products and export sales, as well as pricing pressures in a competitive market and the disposal of Nutriscience in 2016 which generated £1.3m of sales at margins in excess of 50%.

Whilst the impact of a changing sales mix and competitive pricing pressures are likely to persist over the rest of 2018 we expect to deliver at least double digit growth in underlying EBITDA in this division and to see further strong sales growth driven by a growing portfolio of products and a wider geographical sales reach for these products.

Wholesale

Our Wholesale division focuses on the sale of third-party veterinary pharmaceuticals, supplies and instruments in Belgium. Based close to Bruges, in the North West of Belgium, this business supplies veterinary professionals across the country and has been trading for 25 years and is well established in a stable market.

The extensive range of over 5,000 products includes own label and branded items ranging from small disposable items to larger capital equipment and diagnostic instruments. The division also specialises in the supply of surgical instruments.

Revenues increased by 9.7%, entirely through organic growth, to £23.9m (2016: £21.8m) with this division representing 28.6% of total Group sales. This division delivered underlying and reported EBITDA of £0.3m (2016: £0.5m) reflecting the investment made in sales staff to drive future growth. Growth was driven by the addition of new customers, as well as expanding the range of products sold to existing customers.

Product Development Pipeline

The focus on building value within our product development pipeline continues. As an enlarged business our development team is located across a number of sites providing extensive skills and capabilities across Belgium, Germany, Spain and UK. Karolyn Tapper, previously Director of Business Development for Animalcare Ltd, has been appointed to the new role of Group Head of Technical and Commercial Development to structure and integrate the teams to ensure that we continue to grow through investing in and attracting new product opportunities.

A project rationalisation and prioritisation process for all projects across the Group has been undertaken. Within the context of the enlarged Group, technical feasibility, development costs and commercial forecasts have been reviewed thoroughly to determine which projects would be continued. The Company is currently focused on 17 active new product development pipeline projects within Spain and UK.

In 2017 we launched Acecare, a sedative, from the original UK pipeline. Sales have been in line with the original project forecast. One centralised registration was submitted in 2017 and launch of this product is planned in late 2018. Progress of the pipeline continues and in 2018 three new products have already been registered across Europe with additional submissions planned throughout the year.

Alongside the new product development pipeline, a number of product improvement and product maintenance projects are ongoing. Several registrations to expand the global presence of our products were made in 2017 and launch within new territories is planned at the end of 2018 and during 2019.

New Products through Strategic Alliances and Partnerships

In addition to broadening our product portfolio through our own development pipeline, we are aware that our wide geographical footprint is attractive to similar companies in the US and Asia who are seeking routes to market for their products across Europe. During the period we have seen the first result of this strategy with an agreement with US-based Nutramax, to provide Europe-wide distribution of their nutritional supplement Cosequin, which promotes canine joint health.

People

We currently have 100 sales representatives and 28 agents across Europe, having invested in an additional 6 sales representatives and support roles during the year.

As a result of changes in senior and executive management in the Company it was necessary to find and appoint new Country Managers in Spain and the UK, the two key territories in the Group. This has been completed with the new recruits now in post in the weeks following the year end.

Internal appointments have also been made in the important areas of Technical and Product Development and Export. These new roles will progress the integration of the Group and help us to realise commercial opportunities more quickly.

It is clear that an appointment in supply chain management will be required in the near future to ensure the operational efficiencies of the Group within this area are achieved.

In addition, we announced at the end of April that Iain Menneer has stood down from his role as Chief Operating Officer. We are very grateful for all of Iain's work on the integration of Animalcare and Ecuphar and we wish him well for the future. Iain's role as COO will not be replaced and has been redistributed within the senior management team that he was accountable for, who will take on further responsibilities and report directly to myself.

The key component to ensuring we continue to deliver on our long-term growth strategy is to continue to attract and retain the highest calibre people to drive forward our development. I would like to extend my thanks to all of our staff for their hard work.

Brexit

The details of how the UK pharmaceutical regulations will be extracted from the current harmonised European structure are not yet clear. The Veterinary Medicines Directorate (UK Government agency) is looking for close cooperation to enable a smooth transition to ensure animal welfare and food safety. The recent acquisition has enabled the new Group to start restructuring its pharmaceutical licence ownership with legal entities in the UK and Europe post-Brexit to allow uninterrupted commercial supply of product. We will continue to monitor the situation and take the necessary action to ensure business continuity.

CHIEF EXECUTIVE OFFICER'S REVIEW

Post-period end – Le Vet purchase by Dechra

On 13th February, Dechra plc acquired Le Vet Beheer B.V. ("Le Vet"), a business which has developed a portfolio of products, and established a network of marketing partners across Europe. Le Vet has been a long-term partner of Animalcare and Ecuphar with distribution agreements in four territories. Whilst certain distribution arrangements will not change, it is clear that this will not be the case across all of them. We are taking action now to mitigate against any material change which could adversely impact trading part way through 2019.

Strategy and Outlook

The strategy of the business remains focused on building long-term shareholder value by creating a growing, profitable and highly cash generative pan-European animal health platform, capable of investing in a steady flow of new products and rewarding shareholders with dividend payments.

Further growth is expected through the execution of a clear strategy for growth via both organic sales growth and through targeted acquisitions. Our strategy for growth includes:

- Cross-selling opportunities across customers and distribution channels
- More synergies delivered through further integration of the businesses
- Enhancing geographic footprint and sales, marketing and distribution network
- Developing network of partnerships / strategic alliances to increase exposure to new opportunities
- Identifying selective value-accretive acquisitions
- Diversifying the portfolio of products into additional therapeutic areas within companion animal as well as production animal and equine markets
- Broadening the product development pipeline to include novel therapies

We expect growth in revenues to be driven by the launch of new products from our development pipeline, additional regulatory approvals for our existing products in new territories and the distribution of new products for US or Asia based third parties across our European footprint. We also expect margin improvement to be seen as the opportunity to cross-sell products fully impacts as existing distribution agreements held by our UK business for Germany, Spain, Portugal, Italy and Belgium are exited and replaced by our own direct sales network.

We believe we are on track to deliver double digit profit growth during 2018 and enhancement to profit margins will be driven by further synergies and cross-selling opportunities, which will start to take effect late in 2018 as integration progresses, but will deliver a more meaningful impact on profit margins during 2019 as the full effect of these changes are felt.

We believe the business is well positioned for future growth and the Directors remain confident of delivering long-term shareholder value.

CHRIS CARDON
CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER'S REVIEW

"The reverse acquisition will provide a number of opportunities for growth and long-term value creation for our shareholders"

CHRIS BREWSTER
CHIEF FINANCIAL OFFICER

Presentation of Results

On 13th July 2017, Animalcare Group plc completed the acquisition of Ecuphar NV, a European Animal Health Company headquartered in Belgium. The acquisition constituted a reverse takeover for the purposes of Rule 14 of the AIM Rules for Companies.

This business combination has been treated as a reverse acquisition in accordance with IFRS 3. Under the provisions of IFRS 3 the results for the year ended 31st December 2017 are reported as a continuation of Ecuphar NV with the results of Animalcare Group plc consolidated from the date of acquisition.

Accordingly, the statutory results for the year end 31st December 2017 reflect 12 months of Ecuphar NV and approximately five and a half months of Animalcare Group plc as previously constituted.

To help shareholders to assess the Group, an unaudited Pro forma Consolidated Income Statement has been provided, which reflects 12 months of trading from both entities. The Board believes that these statements provide the most appropriate basis for future comparison of operating performance.

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 prior to the pro- forma information as described above.

CHIEF FINANCIAL OFFICER'S REVIEW

Overview of Underlying Results

To assist with the understanding of our underlying financial results, the Group results presented below are split between continuing operations (Ecuphar NV) and acquisition, being Animalcare Group plc from 13th July 2017.

	2017 Continuing £'000	2017 Acquisition £'000	2017 Total £'000	2016 Total £'000	% Change at AER Continuing %	Total %
Revenue	76,118	7,558	83,676	68,361	11.3%	22.4%
Underlying Gross Profit	30,408	4,256	34,664	28,275	7.5%	22.6%
Gross Margin %	39.9%	56.3%	41.4%	41.4%	(1.2%)	–
Underlying Operating Profit	6,229	1,530	7,759	6,720	(7.3%)	15.5%
Underlying EBITDA	8,415	1,572	9,987	8,914	(4.2%)	11.9%
Underlying EBITDA margin %	11.1%	20.8%	11.9%	13.0%	(1.9%)	(1.3%)
Underlying Profit after tax	3,824	1,460	5,284	3,964	(3.5%)	33.3%
Basic Underlying EPS (p)	–	–	12.6p	16.7p	–	(24.6%)

The Group delivered total revenue of £83.7m, an increase of 22.4% versus the prior year. This included £76.1m from the continuing Ecuphar business, an increase of 11.3% (3.8% at CER) and £7.6m contribution from the acquired Animalcare operations.

Underlying EBITDA increased by 11.9% to £10.0m (2016: £8.9m) including a £1.6m contribution from acquisition business. Ecuphar's continuing business underlying EBITDA decreased by 5.6% to £8.4m primarily reflecting the lower gross margins, investments in our infrastructure and people to support future growth and the disposal of NutriScience which Ecuphar sold in October 2016 which contributed profits of approximately £0.2m. More details regarding operational performance are provided within the Trading Performance section.

Basic underlying EPS decreased by 24.6% to 12.6 pence (2016: 16.7 pence). The 33.3% increase in profit after tax was offset by the significant increase in the weighted average number of shares from 23.8 million (which has been adjusted for the merger ratio of 63:37 as described in note 9) to 42.0 million.

Trading Performance

The following table sets out Group underlying trading performance by operating segment (see note 5 for more detail) analysed between continuing and acquisition businesses. This analysis will evolve over time as we integrate the two businesses.

	2017 Continuing £'000	2017 Acquisition £'000	2017 Total £'000	2016 Total £'000	% Change at AER Continuing %	Total %
Revenue by Segment						
Pharma	52,180	7,558	59,738	46,530	12.1%	28.4%
Wholesale	23,938	–	23,938	21,831	9.7%	9.7%
Total	76,118	7,558	83,676	68,361	11.3%	22.4%
Underlying Gross Profit by Segment						
Pharma	27.993	4,256	32,249	26,003	7.7%	24.0%
Wholesale	2,415	–	2,415	2,272	6.3%	5.8%
Total	30,408	4,256	34,664	28,275	7.5%	22.6%
Underlying EBITDA						
Pharma	8,126	1,572	9,698	8,429	(3.6%)	15.1%
Wholesale	289	–	289	485	(40.4%)	(40.4%)
Total	8,415	1,572	9,987	8,914	(5.6%)	11.9%

Pharma segment

Revenue in our pharma segment grew by 28.4%, 12.1% of which was delivered by the continuing Ecuphar business. This growth was primarily driven by very strong growth in Production Animals revenue which as an overall category increased by 25.2% versus prior year to £28.4m together with a strong contribution from the Companion Animals category. Further detail on revenue by product category is given below.

Underlying EBITDA improved by 15.1% to £9.7m however declined by 3.6% from continuing business to £8.1m (2016: £8.4m), representing an EBITDA margin of 15.6% (2016: 18.1%). This decline was driven by a combination of lower gross margins which fell by 2.3% to 53.6% and a £2.3m increase in operating costs.

Gross margins in our continuing business have fallen for three main reasons:

- Lower margin sales mix primarily reflecting higher growth in our Production Animal product category and export markets.
- Maintaining market share in a competitive environment, at some expense to margins.
- Disposal of NutriScience in October 2016 which generated £1.3m sales at margins in excess of 50%.

Operating costs have increased by £2.3m to £19.9m (2016: £17.6m) representing 38.2% (2016: 37.8%) of sales. Approximately £1.5m of this increase relates to investment in our infrastructure (in particular IT and R&D), people and marketing to position the business for future growth. The balance of £0.8m reflects higher distribution costs as a result of significantly increased vaccine sales together with higher inventory write offs.

Reported EBITDA, which includes £2.2m non-underlying items as analysed in note 5, reduced to £7.5m (2016: £10.2m).

Wholesale segment

Our wholesale segment, which comprises the purchase and re-sale of veterinary pharmaceuticals, supplies and instruments in Belgium, delivered revenue of £23.9m, representing an increase of 9.7% on the prior year. Whilst gross margins at 10.1% remained broadly comparable with prior year (2016: 10.4%), underlying and reported EBITDA reduced from £0.5m to £0.3m mainly due to increased employee costs to drive product sales and services growth.

Revenue by Product Category

	2017 £'000	2016 £'000	% Change at AER %
Companion Animals	**42,791**	30,799	38.9%
Production Animals	**28,390**	22,668	25.2%
Equine	**4,718**	5,567	(15.3%)
Other products and services	**7,777**	9,327	(16.6%)
Total	**83,676**	68,361	11.3%

Companion Animals revenue increased by 38.9% to £42.8m and, following the reverse acquisition of Animalcare Group plc, now represents 51.1% of total business, up from 45.1% in the prior year. Animalcare revenues generated 24.5% of the growth with the balance of 14.4% delivered by existing business, primarily driven by increased export sales, increased wholesale sales and market penetration of core pharmaceuticals.

Production Animals revenue grew by 25.2% on prior year despite ongoing pressure on antibiotic usage. This growth largely came from full year sales of new products launched in 2016, in particular rabbit vaccines, and continued growth of core products in both our established markets as well as newer geographies such as Italy.

Equine revenues reduced to £4.7m due to the prior year one-off benefit of horse vaccine sales in Germany as a result of competitor supply issues.

Reported Financial Results

Given the significant changes to the Group following the reverse acquisition, the financial results contain a number of non-underlying items comprising the fair value uplift of inventory acquired, amortisation and impairment of acquired intangibles and acquisition and integration costs.

CHIEF FINANCIAL OFFICER'S REVIEW

A reconciliation of underlying results to reported results is provided below:

	2017 Underlying results £'000	Fair value adjustment on acquired inventory £'000	Amortisation and impairment of acquired intangibles £'000	Acquisition and integration costs £'000	2017 Reported results £'000	2016 Reported results £'000
Revenue	**83,676**	–	–	–	**83,676**	68,361
Gross Profit	**34,664**	(401)	–	–	**34,263**	28,275
Selling, general & administrative expenses	**(24,912)**	–	(3,590)	–	**(28,502)**	(22,347)
Research & development expenses	**(2,048)**	–	(751)	–	**(2,799)**	(1,776)
Net other operating income (expenses)	**55**	–	–	(1,817)	**(1,762)**	1,887
Operating Profit	**7,759**	(401)	(4,341)	(1,817)	**1,200**	6,039
Net finance expenses	**(656)**	–	–	–	**(656)**	(891)
Profit before tax	**7,103**	(401)	(4,341)	(1,817)	**544**	5,148
Taxation	**(1,819)**	76	972	411	**(360)**	(1,632)
Profit after tax	**5,284**	(325)	(3,369)	(1,406)	**184**	3,516
Basic EPS (p)	**12.6p**	–	–	–	**0.4p**	14.8p

Including non-underlying items, the Group's profit after tax fell to £0.2m (2016: £3.5m). Non-underlying items incurred in the year are summarised below (all figures are pre-tax):

- Fair value adjustment of acquired inventory of £0.4m – this is a non-cash uplift to the value of acquisition inventory as a result of the fair value exercise carried out in accordance with IFRS 3 'Business Combinations'.
- Amortisation and impairment of acquired intangibles totalling £4.3m – this comprises £1.7m charge arising on the acquired intangibles relating to the Animalcare reverse acquisition and £2.6m in relation to previous acquisitions made by Ecuphar NV, principally Esteve SA which was acquired on 30th April 2015.
- Acquisition and integration costs of £1.8m – this principally includes the transaction costs borne by Ecuphar NV in relation to the reverse acquisition of Animalcare Group plc and post-acquisition integration costs including the internal transfer of Animalcare Ltd to Ecuphar NV and the set-up of a new long-term incentive plan which the Board is seeking to implement during 2018.

Earnings per Share and Dividend

Basic underlying EPS decreased by 24.6% to 12.6pence (2016: 16.7 pence). The 33.3% increase in profit after tax was offset by the significant increase in the weighted average number of shares from 23.8 million (which has been adjusted for the merger ratio of 63:37 as described in note 8) to 42.0 million.

The reported basic EPS, which incorporates non-underlying items, decreased to 0.4 pence (2016: 14.8 pence)

The Board is proposing a final dividend of 2.0 pence per share, added to the second interim dividend of 4.7 pence per share paid in November 2017, giving a total dividend of 6.7 pence per share since the reverse acquisition. This final dividend is subject to shareholder approval at the Annual General Meeting on 27th June 2017. The Board will continue to maintain the current dividend policy and timing of payments whilst continuing to invest for future growth.

Cash Flow, Net Debt and Borrowing Facilities

	£'000
Net debt at 1st January 2017	**(23,782)**
Net cash generated from operations	2,425
Net capital expenditure	(2,532)
Acquisition of subsidiaries net of cash acquired	(26,852)
Receipts from issue of share capital	29,402
Net finance expenses	(657)
Dividends paid	(2,816)
Other cash movements	(45)
Foreign exchange on cash and borrowings	(1,051)
Net debt at 31st December 2017	**(25,908)**

The Group generated £2.4m net cash from operations (2016: £9.3m) which includes a cash outflow from non-underlying items totalling £3.8m. Working capital increased by £5.6m principally reflecting the payment of £2.5m non-underlying items which were recognised (accrued) at the time of the reverse acquisition, £2.0m increase in trade receivables due to strong growth in the final quarter and £1.4m investment in stock. This stock increase was mainly within our wholesale operation due to anticipated further antibiotic restrictions with the balance largely in our high-growth territories.

Net capital expenditure of £2.5m largely comprises investment in our product development pipeline from which a significant number of new products launches are expected in 2019 and 2020.

The £33.1m cash consideration for the acquisition of Ecuphar NV was funded using £4.0m of cash held by Animalcare Group plc and £29.1m of equity raised through a placing net of £0.9m expenses.

As part of the reverse acquisition, the Group agreed to maintain the existing Ecuphar NV borrowing facilities (the Facilities) through four banks which comprised (i) €41.5m revolving credit facility (RCF), (ii) €10m term facility to finance permitted acquisitions (Term Loan A) and (iii) €4.08m quarterly amortising term facility (Term Loan B).

There are three covenants governing the facilities:

(i) a minimum adjusted solvency ratio of 30% measured as consolidated adjusted equity to consolidated adjusted total assets;

(ii) a maximum leverage ratio of 3.5 times measured as consolidated net debt to consolidated EBITDA;

(iii) a minimum interest coverage ratio of 4 times measured as consolidated EBITDA to consolidated interest expenses.

Based on the 12 months unaudited pro-forma underlying EBITDA of £11.8m (see below), the Group's net debt: underlying EBITDA leverage ratio was 2.2 times. At 31st December 2017, total facilities were £48.4m, of which £33.5m, net of cash balances, was being utilised leaving headroom of £14.9m. These bank facilities, together with the Group's operational cash flow, indicate that the Group has sufficient facilities available to fund its operations and allow for future expansion.

Summary

The transformational reverse acquisition of Ecuphar has created critical scale for the Group within the European animal health market, providing a strengthened position to capitalise on growth in the market to deliver long-term shareholder value.

To support this value creation, and to maximise the commercial, operational and financial synergies, the Group must deliver a wide-ranging and comprehensive integration. The historical growth of Ecuphar was complemented by a series of acquisitions including the largest and most significant acquisition of Esteve in 2015. Prior to the reverse, limited integration of these operations was undertaken. This has presented additional challenges resulting in the current process to integrate the businesses taking longer than expected.

From a financial performance perspective, we have delivered strong revenue growth; however, this has not translated through to our operating profit as we have experienced competitive market pressures and changing sales mix, leading to margin decline in the second half of 2017.

Against this backdrop, our priorities for the current year are:

- Increasing sales of new products from our distribution network and expanding our geographic footprint
- Focusing on gross margin and EBITDA development in order to deliver anticipated profit growth
- Improving operating cash generation, important in providing the business with the funds to continue the momentum in our product development pipeline together with dividend flow
- Delivering integration to unlock scale benefits and support EBITDA

We remain firm in our belief that the reverse acquisition will provide a number of opportunities for growth. Delivering the comprehensive integration to realise the synergies and benefits available is key. Ultimately, to create value the combination of our businesses must become more than the sum of the parts.

We expect to see some benefits of the integration in the current year but a more meaningful impact on profit in 2019.

Once fully integrated, we believe this will provide a strong platform for long-term value creation for our shareholders.

CHIEF FINANCIAL OFFICER'S REVIEW

Proforma Consolidated Financial Information (unaudited)

As noted previously, to help shareholders to assess the Group, an unaudited Proforma Consolidated Income Statement has been produced, which reflects 12 months of trading from both entities as below. Pro forma information has been prepared in a manner consistent with the accounting policies adopted by the Group in preparing the audited financial statements for the year ended 31st December 2017.

Proforma Consolidated Income Statement (unaudited)

	Animalcare 2017 £'000	**Ecuphar 2017 £'000**	**Total 2017 £'000**	Animalcare 2016 £'000	Ecuphar 2016 £'000	Total 2016 £'000
Revenue	**15,825**	**76,118**	**91,943**	15,556	68,361	83,917
Gross Profit	**8,720**	**30,408**	**39,128**	8,722	28,275	36,997
Operating expenses	**(8,696)**	**(28,475)**	**(37,171)**	(5,353)	(22,236)	(27,589)
Operating Profit	**24**	**1,933**	**1,957**	3,369	6,039	9,408
Depreciation, amortisation & impairment	**280**	**4,843**	**5,123**	403	4,689	5,092
Non-underlying items	**3,045**	**1,639**	**4,684**	172	(1,814)	(1,642)
Underlying EBITDA	**3,349**	**8,415**	**11,764**	3,944	8,914	12,858
Net financial (expenses)/income	**(40)**	**(617)**	**(657)**	36	(891)	(855)
(Loss)/profit before tax	**(16)**	**1,316**	**1,300**	3,405	5,148	8,553
Taxation	**(104)**	**(724)**	**(828)**	(466)	(1,632)	(2,098)
Net (loss)/profit	**(120)**	**592**	**472**	2,939	3,516	6,455
Underlying net profit	**2,769**	**3,824**	**6,593**	3,139	3,964	7,103
Underlying basic EPS (p)	**–**	**–**	**11.0p**	–	–	11.8p

Compared to the statutory results, the unaudited proforma consolidated income statement includes an additional 28 weeks of Animalcare Group plc's results prior to the reverse acquisition which has the impact of increasing revenue and underlying EBITDA by £8.3m and £1.8m respectively. This is shown in further detail in the reconciliation section below.

On the proforma basis, revenue increased by 9.6% (3.4% at CER) to £91.9m however underlying EBITDA decreased by 8.5% (12.9% decrease at CER) to £11.8m.

The principal drivers for the financial performance of the existing Ecuphar business are described earlier in the Trading Performance section.

For the acquired Animalcare business, revenues increased 1.7% to £15.8m, driven by £0.6m growth within export offset by a £0.4m reduction in sales from our microchipping business, the latter primarily as a result of the £0.3m incremental sales benefit observed in 2016 following the introduction of compulsory microchipping in the UK. Gross profit was flat at £8.7m largely reflecting the changing sales mix towards lower margin export business. Operating expenses excluding non-underlying items increased by £0.4m of which approximately half relates to higher central costs, including the enlarged Board. The balance primarily relates to investment in our UK trading business staff base. As a result, underlying EBITDA fell by £0.6m to £3.3m.

The proforma results are yet to reflect the benefits from leveraging the Group's enlarged platform which include commercial synergies, operating efficiencies and optimisation of the R&D function. We will continue to deliver the integration throughout 2018 to deliver more significant value creation from 2019.

Reconciliation of Pro forma Consolidated Income Statement

A reconciliation of the statutory results to the Pro forma results is shown below:

	Reported results 2017 £'000	Fair value adjustment on acquired inventory[1] 2017 £'000	Acquisition and integration costs[2] 2017 £'000	Amortisation of Animalcare acquired intangibles[3] 2017 £'000	Animalcare pre-acquisition[4] 2017 £'000	Pro forma results 2017 £'000
Revenue	**83,676**	**–**	**–**	**–**	**8,267**	**91,943**
Gross profit	34,263	401	–	–	4,464	39,128
Operating expenses	(33,063)	–	–	1,645	(5,753)	(37,171)
Operating profit/(loss)	**1,200**	**401**	**–**	**1,645**	**(1,289)**	**1,957**
Depreciation, amortisation & impairment	6,569	–	–	(1,645)	199	5,123
Non-underlying items	–	–	1,817	–	2,867	4,684
EBITDA	**7,769**	**401**	**1,817**	**–**	**1,777**	**11,764**
Net financial (expenses)/income	(656)	–	–	–	(1)	(657)
Profit/(loss) before tax	**544**	**401**	**–**	**1,645**	**(1,290)**	**1,300**
Taxation	(360)	(76)	–	(310)	(82)	(828)
Net profit/(loss)	**184**	**325**	**–**	**1,335**	**(1,372)**	**472**

Notes

1. See description within the reconciliation of underlying to statutory results.
2. See description within the reconciliation of underlying to statutory results.
3. See description within the reconciliation of underlying to statutory results – this is net of £40k amortisation of acquired intangibles relating to the previous reverse acquisition of Animalcare Ltd in January 2008.
4. Pre-acquisition results of Animalcare Group plc from 1st January 2017 to 12th July 2017.

CHRIS BREWSTER
CHIEF FINANCIAL OFFICER

OUR PRINCIPAL RISKS

Risk Management Framework

The Board is responsible for maintaining and reviewing the effectiveness of our risk management activities, intended to monitor and mitigate, rather than eliminate, the significant risks that the Group is exposed to.

In accordance with our governance practices, the Audit Committee supports the Board of Directors in monitoring the Group's risks and is responsible for reviewing the effectiveness of the risk management and internal control systems.

Our Risks

A summary of the principal risks together with an explanation of how the Group mitigates each risk their trend and linkage to our strategy are set out in the table below.

RISK	ALIGNMENT TO STRATEGY	POTENTIAL IMPACT	MITIGATION	TREND
Competitor risk Launch of competitor products, for example other generic or more superior product profile. Our product portfolio is broad however contains products with strong market share which is attractive to competitors.	3 4 5 6	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 monitor new product registrations and competitor launches and develop commercial and marketing responses accordingly. Diversification of our product portfolio and geographies will lessen the impact on our business.	Up
Market risk In certain geographies the veterinary market continues to see the emergence and growth of buying groups and corporate customers who are looking for value from the products and services we provide.	1 3 4 5 6	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 and achieve our goal to better serve our changing customer base, both on a national and in future a European basis.	Same
Integration risk The integration of Ecuphar and Animalcare is wide-ranging and may fail to deliver expected returns due to integration challenges.	1 2	Failure to deliver the integration to the expected timetable together with anticipated commercial and operational synergies will inhibit growth and lead to higher costs and lower than expected profits.	An integration plan has been prepared and is being implemented across key work streams including supply chain, technical & product development, finance, HR, export and IT.	Same
Product development risk Pharmaceutical development is complex, involving technical, regulatory and financial risk. Failure to successfully deliver new product development projects could have a material impact on the Group's results and damage our market position and relationship with our customers.	5 6	Complete failure of a project or failure to meet commercial expectations due to for example competitor launches (generic or novel) would result in impairment of capitalised development costs.	Following careful selection of development strategy, each new product development project undergoes rigorous review by the cross-discipline senior management team with final sign-off by the Board. The pipeline is reviewed regularly, with corresponding updates provided to the Board, to ensure each project is progressing according to plan.	Same

Key

Up Down Same

RISK	ALIGNMENT TO STRATEGY	POTENTIAL IMPACT	MITIGATION	TREND
Reliance on third parties risk The supply of products to our customers in a timely manner is vital to the success of the Group. The Group does not manufacture any of its own products and is solely reliant on an increasing third party supplier and contract manufacturer base across the UK and Europe.	3 4 5 6	Any disruption to the relationship with our key supply partners, whether commercial or via change of control, or interruption to the supply chain could result in significant loss of revenue and damage the Group's reputation with its customers.	Given the increasing complexity and diversity in our supply chain, we have identified the need for increased specialist resource in this area which will form part of the integration. We monitor supplier performance and maintain adequate inventories, including safety stock held by our suppliers, based on risk assessments.	↑
Regulatory risk Continuing pressure to reduce antibiotic usage and resistance. In certain countries this has led to increasing government intervention to limit the use of antibiotics in food producing animals.	3 4 5 6	Decline in sales of our antibiotic product range.	Regular dialogue is maintained with relevant authorities in each country to ensure we maintain a thorough understanding of regulatory changes. We aim to sell products that minimise antimicrobial resistance concerns.	↑
People risk The Group has a small Executive and senior management team whose skills, knowledge, experience and performance make a large contribution to the success of the Group.	2 3 4 5 6	Failure to retain and attract high calibre individuals in key roles could impact the successful implementation of our strategy and adversely impact on our results.	The Nomination Committee leads the process for all potential appointments to the Board. Remuneration packages are reviewed annually to help ensure that the Group has the right mix of base salary, and short-term and long-term incentives to attract, retain and reward key employees to execute our growth strategy.	→

BOARD OF DIRECTORS

JAN BOONE
NON-EXECUTIVE CHAIRMAN

Jan was appointed Non-Executive Chairman of the Group on 13th July 2017 following the acquisition of Ecuphar NV.

Committee membership

Member of the Audit Committee and the Nomination and Remuneration 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 and also serves as a Non-Executive Director of Club Brugge.

CHRIS CARDON
CHIEF EXECUTIVE OFFICER

Chris was appointed Chief Executive Officer of the Group on 13th July 2017 following the acquisition of Ecuphar NV where he was Chief Executive Officer.

Committee membership

By invitation

Relevant skills and experience

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

CHRIS BREWSTER
CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Chris was appointed Chief Financial Officer in June 2012. Chris resigned as Chief Financial Officer on 13th July 2017 following the acquisition of Ecuphar NV and took on the role of UK Country Manager for the Group. He was reappointed as Chief Financial Officer on 25th September 2017.

Committee membership

By invitation

Relevant skills and experience

Chris has a broad range of experience gained during his ten years working across a number of functions at KPMG and through his role as Group Accounting Manager at Findus Group. Since joining Animalcare, Chris has developed the systems, controls and management information needed to support the growth and strategy of the business. More recently Chris has taken responsibility for supporting the changes required within the supply chain function to provide a robust platform for growth and the integration of the Ecuphar business into the Group.

MARC COUCKE
NON-EXECUTIVE DIRECTOR

Marc was appointed as a Non-Executive Director on 13th July 2017 following the acquisition of Ecuphar NV.

Committee membership

Member of the Nomination and Remuneration Committee

Relevant skills and experience

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. Marc graduated as a pharmacist from the University of Ghent after which he completed an MBA at the Vlerick Leuven-Gent Management School. As Chief Executive Officer of Omega Pharma, he was awarded the EY Flemish Entrepreneur of the Year in 2002.

NICK DOWNSHIRE
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 Committee

Relevant skills and experience

Nick is a qualified chartered accountant who 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 an estate in Yorkshire and is a former Chairman of the CLA for Yorkshire, 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 Committee for the Duchy of Lancaster. His experience with other organisations and his professional background assist him in chairing the Audit Committee and bringing objectivity and analysis to the Remuneration Committee.

EDWIN TORR
NON-EXECUTIVE DIRECTOR
SENIOR INDEPENDENT DIRECTOR

Edwin was appointed as a Non-Executive Director and Senior Independent Director on 13th July 2017 following the acquisition of Ecuphar NV.

Committee membership

Member of the Audit Committee and Nomination and Remuneration Committee

Relevant skills and experience

Edwin 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 the Dechra entity listed on the London Stock Exchange 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, Edwin 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.

JAMES LAMBERT
NON-EXECUTIVE DIRECTOR

James was appointed Chairman of Animalcare in 2008 when it was acquired by Ritchey plc, for whom he was Chairman from 2005 and a Non-Executive Director from 2003. He stood down as Chairman on 13th July 2017 following the acquisition of Ecuphar NV.

Committee membership

Chairman of the Nomination and Remuneration Committee

Relevant skills and experience

In 1985, James co-founded R&R Ice Cream where he was Chief Executive Officer for 28 years and retired as Executive Chairman in 2014. He was appointed Chairman of Burton's Biscuits in 2013, Chairman of Inspired Pet Nutrition in 2015, Chairman of Whitman Howard in 2016 and Non-Executive Director of Story Homes in 2016. James has spent his career helping build, develop and manage successful businesses, enabling them to reach their full potential and give them strategic direction. He won the EY UK Entrepreneur of the Year award in 2014 and represented the UK in the EY World finals.

CORPORATE GOVERNANCE STATEMENT

"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."

JAN BOONE
NON-EXECUTIVE CHAIRMAN

An Introduction from our Chairman

I have pleasure in introducing the Corporate Governance Statement. This report summarises our approach to governance and provides information about how the Board and its committees operate.

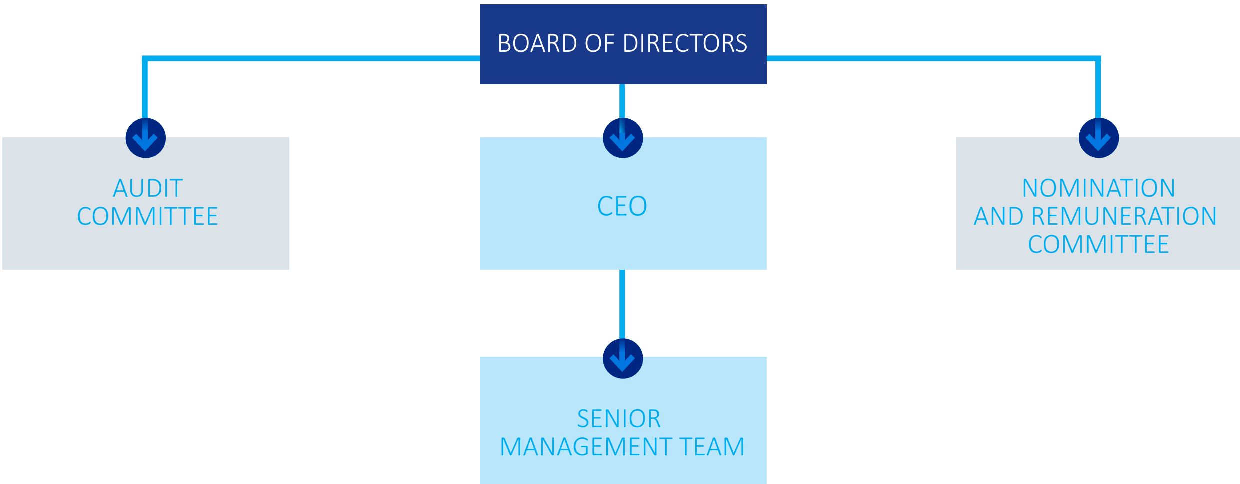
As a Board, we recognise that applying sound governance principles is essential to the successful running of the Group, and supports its long-term success and strategy for growth. It is our goal therefore to continue to improve and develop our governance structures. As a company listed on AIM, we are not required to comply with the UK Corporate Governance Code 2016 ("the UK Code"). We consider that the Quoted Companies Alliance's Corporate Governance Code for small and mid-size quoted companies ("the QCA Code") is more relevant for AIM companies such as Animalcare and we apply wherever possible, and as appropriate to the size, nature and resources of the Group, the QCA code.

The policies and procedures we have put in place following the acquisition of Ecuphar NV in July 2017 give us a firm foundation for our governance structures and we will continue to build on these.

JAN BOONE
NON-EXECUTIVE CHAIRMAN

15th May 2018

Our Board and Committee Structure



The Role of the Board

The Board is responsible to the shareholders and sets the Group's strategy for achieving long-term success. It is also ultimately responsible for the management, governance, controls, risk management, direction and performance of the Group.

The Composition of the Board

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

Following completion of the acquisition of Ecuphar NV on 13th July 2017, the Board was restructured to take account of the activities of the enlarged Group. Before that date, the Board comprised the Non-Executive Chairman, James Lambert, two Non-Executive Directors, Nick Downshire and Ray Harding, and two Executive Directors, the Chief Executive Officer Iain Menneer and the Chief Financial Officer Chris Brewster. On 13th July 2017, the Board was restructured as follows:

- James Lambert stepped down from his role as Non-Executive Chairman but remained on the Board as Non-Executive Director.
- Jan Boone was appointed as Non-Executive Chairman.
- Iain Menneer stepped down from his role as Chief Executive Officer but remained on the Board as Chief Operation Officer.
- Chris Cardon was appointed as Chief Executive Officer.
- Chris Brewster stepped down as Chief Financial Officer.
- Walter Beyers was appointed as Chief Financial Officer.
- Ray Harding resigned as a Non-Executive Director.
- Marc Coucke and Edwin Torr were appointed as Non-Executive Directors.

On 25th September 2017, Walter Beyers resigned as Chief Financial Officer and Chris Brewster was reappointed as Chief Financial Officer.

On 26th April 2017, Iain Menneer resigned as Chief Operating Officer.

The Board currently comprises two Executive Directors and five Non-Executive Directors.

The Non-Executive Chairman Jan Boone and Senior Independent Director Edwin Torr are considered to be independent and therefore the Board is compliant with the QCA Code, having at least two independent Non-Executive Directors. Nick Downshire and James Lambert have been directors of the Company for more than ten years and were significant shareholders of the Group, holding over 3% of issued share capital, prior to the acquisition of Ecuphar NV in July 2017. Following the increase in issued share capital following the Placing in July 2017, their shareholdings have been diluted and they are no longer classed as significant shareholders. Notwithstanding their length of tenure and their interests in the share capital of the Company, the Board also considers Nick Downshire and James Lambert to be independent in character and judgement.

On completion of the acquisition of Ecuphar NV, 23.1% of the issued share capital of the Company is held by Ecuphar Invest NV, 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, minority 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 copy of the relationship agreement is available on the Company's website (www.animalcaregroup.co.uk).

Appointments to the Board and re-election

The Board has delegated to the Nomination and Remuneration 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 Nomination and Remuneration Committee may be found in its report on page 34.

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"). Under the Articles, any Director who was not elected or re-elected at either of the two preceding Annual General Meetings must retire by rotation at the next Annual General Meeting, and at each Annual General Meeting, at least one third of the Directors must retire and be eligible for re-election. In accordance with the Articles, Jan Boone, Chris Cardon, Marc Coucke, Edwin Torr, Chris Brewster and Nick Downshire will retire and offer themselves for re-election at the next Annual General Meeting. The Board considers that each of these Directors offering themselves for re-election continues to make a valuable contribution to the Board and continues to demonstrate commitment.

Animalcare Group plc

CORPORATE GOVERNANCE STATEMENT

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.

Performance Evaluation

An informal Board evaluation process was conducted using a questionnaire and self-assessment in August 2016. Given the changes on the Board in 2017, it was not felt appropriate to conduct an evaluation. However, the Board intends to evaluate its performance and that of its committees on an annual basis.

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.

Directors' and Officers' Liability Insurance

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

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

The Board meets at regular intervals and Non-Executive Directors communicate directly with Executive Directors and senior management between formal Board meetings. The Board held a focused meeting on strategy in December 2017 and intends to continue to schedule similar meetings annually.

An agenda and accompanying detailed papers, including reports from the Executive Directors and other members of senior management, are circulated to the Board in advance of each Board meeting.

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.

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 an Executive Committee composed of the Chief Financial Officer 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.

Board decisions and activity during the year

There are a number of standing and routine items included for review on each Board agenda. These include 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 included:

- Strategy presentations
- Presentations from various parts of the business
- Consideration of financing structures
- Approval of annual report and financial statements
- Review of Budget
- Going concern and cash flow
- Briefing and review of conflicts of interest
- Review of AGM business
- Market Abuse Regulation Compliance
- Share Dealing Code

The Board Committees

There are two Board Committees, the Audit Committee and the Nomination and Remuneration Committee, both consisting of at least two independent Non-Executive Directors.

Each Board Committee has approved Terms of Reference setting out their responsibilities. The Terms of Reference were approved and reviewed by the Board during the year and are available on the Company's website (www.animalcaregroup.co.uk).

Details of the operation of the Board Committees are set out in their respective reports below. All of the Board Committees are 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.

Accountability

The Company has in place a system of internal financial controls commensurate with its current size and activities, which is designed to ensure that the possibility of misstatement or loss is kept to a minimum. These procedures include the preparation of management accounts, forecast variance analysis and other ad hoc reports. There are clearly defined authority limits throughout the Group, including those matters that are reserved specifically for the Board.

Risks throughout the Group are considered and reviewed 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 24 and 25. 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.

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. Private shareholders are encouraged to attend the Annual General Meeting at which the Group's activities are considered and questions answered.

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 standing item on the Board's agenda.

Annual General Meeting

The Company's Annual General meeting will be held at 11.30 a.m. on Wednesday 27th June 2018 at the offices of Panmure Gordon & Co, 1 New Change, London, EC4M 9AF. 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.co.uk).

AUDIT COMMITTEE REPORT

Members of the Committee

Prior to the acquisition of Ecuphar in July 2017, the Audit Committee comprised two Non-Executive Directors, Nick Downshire and James Lambert. Following the Board restructure in July 2017, the Audit Committee ('the Committee') now comprises three Non-Executive Directors:

Nick Downshire (Chairman)

Jan Boone

Edwin Torr

The Board is satisfied that Nick Downshire, as Chairman of the Committee, has recent and relevant financial experience, being a qualified chartered accountant who has worked in corporate finance and venture capital.

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

The Committee will meet at least three times 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, the Chief Executive Officer, Chief Financial Officer and external advisers, may be invited to attend for all or a 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 and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- To review the Company's internal financial controls and, unless expressly addressed by a separate Board committee composed of independent directors, or by the Board itself to review the Group's internal control and risk management systems;
- To monitor and review the requirement for, and if established, the effectiveness of the Group's internal audit function;
- To make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors;
- To review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- To develop and implement policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and
- To report to the Board on how it has discharged its responsibilities.

Principal Activities during the Year

The main activities of the Committee during the year included:

- review of the financial statements and Annual Report
- consideration of the external audit report and management representation letter
- going concern review
- a retendering exercise for the appointment of the external auditors
- review of the 2017 audit plan and audit engagement letter
- review of the risk management and internal control systems
- review and approval of the interim results
- assessment of the need for an internal audit function; and
- meeting with the external auditors without management present

Tender Process for the Appointment of the external auditors

Following the acquisition of Ecuphar NV in July 2071, the Committee considered it appropriate to retender for the provision of external audit services to the enlarged Group. A competitive tender process was conducted in late 2017, resulting in the appointment of PricewaterhouseCoopers LLP as the Company's external auditor with effect from 15th January 2018.

Role of the external auditors

The Committee monitors the relationship with the external auditors 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 auditors. The breakdown of fees between audit and non-audit services is provided in note 22 to the Group's Consolidated Financial Statements.

The Committee also assesses the auditors' independence and performance. Having reviewed the auditors' independence and performance, the Committee recommends that PricewaterhouseCoopers LLP be reappointed as the Group's auditors at the next Annual General Meeting.

Internal Audit

At present the Group does not have an internal audit function and the Committee believes that management is able to derive assurance as to the adequacy and effectiveness of internal controls and risk management procedures without one.

Audit Process

The external auditors prepares 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 Audit Committee. Following its review, the external auditors presented their findings to the Audit Committee for discussion. No major areas of concern were highlighted by the external auditors during the year; however, areas of significant risk and other matters of audit relevance are regularly communicated.

Risk Management and Internal Controls

The Group has established a framework of risk management and internal control systems, policies and procedures. The Audit Committee is responsible for reviewing the risk management and internal control framework and ensuring that it operates effectively. During the year, the Committee has reviewed the framework and the Committee is satisfied that the internal control systems in place are currently operating effectively.

Whistleblowing

The Company has a whistleblowing procedure under which staff may report any suspicion of fraud, financial irregularity or other malpractice to any Executive Director.

NICK DOWNSHIRE
CHAIRMAN OF THE AUDIT COMMITTEE

15th May 2018

NOMINATION AND REMUNERATION COMMITTEE REPORT

Members of the Nomination and Remuneration Committee

Prior to the acquisition of Ecuphar in July 2017, the Nomination Committee comprised two Non-Executive Directors, Ray Harding and James Lambert, and the Remuneration Committee comprised two Non-Executive Directors, Ray Harding and Nick Downshire. Following a review of the Group's governance framework after the acquisition of Ecuphar NV, it was considered appropriate to constitute a joint Nomination and Remuneration Committee ("the Committee"). This comprises five Non-Executive Directors:

James Lambert (Chairman)

Jan Boone

Marc Coucke

Nick Downshire

Edwin Torr

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.

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 key responsibilities:

Nomination

- Leading the process for all potential appointments to the Board and making recommendations to the Board in relation to potential appointments;
- Evaluating the balance of skills, experience, independence and knowledge on the Board; and
- In the light of any evaluation, prepare a description of the role and capabilities required for a particular appointment.

Remuneration

- Setting remuneration for all Executive Directors and the Chairman, including pension rights and any compensation payments; and
- Recommending and monitoring the level and structure of remuneration for senior management.

Principal activities during the year

- Recommending to the Board the appointment of new Directors following the acquisition of Ecuphar NV
- Consideration of Executive Directors' bonuses and salaries
- Consideration of Non-Executive Directors' fees
- Review of share option plans
- Succession planning

Diversity

The Group has in place anti-discrimination policies and encourages the promotion of women into senior management positions. This will widen the pool of executives from which to make senior appointments. The Board believes that appointments to the Board should be made relative to various criteria including diversity of background and personal attributes as well as gender, along with the appropriate skills, experience and expertise. All appointments are made taking these criteria into account.

JAMES LAMBERT
CHAIRMAN OF THE NOMINATION AND REMUNERATION COMMITTEE

15th May 2018

DIRECTORS' REMUNERATION REPORT

This report covers the period from 1st July 2016 to 31st December 2017 which represents 18 months of remuneration paid to the Directors of Animalcare Group plc and includes the remuneration of the Directors who were appointed on 13th July 2017 following completion of the acquisition of Ecuphar NV.

The disclosures in this report are made to support the Board's goals of working towards best practice governance standards as an AIM company and to promote transparency about how our Directors are rewarded.

The Nomination and Remuneration Committee

The Board has delegated certain responsibilities for executive remuneration to the Nomination and Remuneration Committee. Details of the Nomination and Remuneration Committee, its remit and its activities are set out on page 34.

The Nomination and Remuneration Committee ("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

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.

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.

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 has additional performance conditions relevant to their own areas of responsibility.

Other benefits

A range of benefits may be provided including private medical insurance, life assurance, long-term disability 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 Cardon	23rd June 2017	Rolling contract	12 months	12 months
Chris Brewster	24th January 2012	Rolling contract	6 months	6 months

Iain Menneer resigned as a director on 26th April 2018.

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.

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 a period of three years which can be terminated by either party giving to the other one month's prior written notice.

ANNUAL REMUNERATION REPORT

This report covers the period from 1st July 2016 to 31st December 2017 which represents 18 months of remuneration paid to the Directors of Animalcare Group plc and includes the remuneration of the Directors who were appointed on 13th July 2017 following completion of the acquisition of Ecuphar NV. This report also sets out details of the Executive Directors' share options and the Directors' interests in the share capital of the Company.

Directors' remuneration table (audited)

Director	Base salary £'000	Benefits in kind £'000	Pensions £'000	Annual performance bonus £'000	Compensation for loss of office £'000	**Total 18 month period to 31st December 2017 £'000**	Total 2016 (12 months) £'000
Executive Directors							
Chris Brewster (resigned on 13th July 2017, reappointed on 25th September 2017)	184	12	22	46	–	**264**	137
Chris Cardon (appointed 13th July 2017)	205	–	–	–	–	**205**	–
Iain Menneer	282	15	34	63	–	**394**	186
Walter Beyers (appointed 13th July 2017, resigned 25th September 2017)	71	–	–	–	45	**116**	–
Non-Executive Directors							
Jan Boone (appointed 13th July 2017)	35	–	–	–	–	**35**	–
Marc Coucke (appointed 13th July 2017)	19	–	–	–	–	**19**	–
Nick Downshire	43	5	–	–	–	**48**	26
Ray Harding (resigned 13th July 2017)	24	–	–	–	12	**36**	23
James Lambert	55	–	–	–	–	**55**	35
Edwin Torr (appointed 13th July 2017)	19	–	–	–	–	**19**	–

Share option schemes

Prior to the acquisition of Ecuphar NV on 13th July 2017, the Company operated three share option schemes: the Executive Share Option scheme under the Enterprise Management Incentive (EMI) scheme, the Savings Related Share Option scheme (SAYE) and a Long Term Incentive Plan (LTIP).

Non-Executive Directors are not eligible to participate in the Company's share option schemes.

Details of the options held by the Executive Directors under the Executive Share Option Scheme, EMI and SAYE at the beginning and the end of the period and details of options exercised during the period are set out below. All vested options were exercised following completion of the acquisition of Ecuphar NV on 13th July 2017.

Scheme	EMI	EMI	EMI	Unapproved	SAYE	Unapproved	EMI	SAYE	Total
Exercise Price	£1.30	£1.30	£1.325	£1.40	£1.03	£1.415	£1.415	£1.05	
Date of Grant	22nd June 2012	2nd Aug 2012	20th Nov 2012	21st Feb 2013	22nd May 2013	20th June 2013	20th June 2013	28th Nov 2014	
Iain Menneer									
Outstanding at 1st July 2016	–	60,000	50,000	90,000	4,377	90,000	–	5,142	299,519
Exercised during the period	–	(60,000)	(50,000)	(90,000)	(4,377)	(90,000)	–	–	(294,377)
Open at 31st December 2017	–	–	–	–	–	–	–	5,142	5,142
Chris Brewster									
Outstanding at 1st July 2016	30,000	30,000	–	–	8,754	–	40,000	8,571	117,325
Exercised during the period	(30,000)	(30,000)	–	–	(8,754)	–	(40,000)	(8,571)	(108,754)
Open at 31st December 2017		–	–	–	–	–	–	8,571	8,571

The Group previously operated a Long Term Incentive Plan which was introduced in June 2014 ("LTIP 2014") and was implemented via a subscription for growth shares in the capital of Animalcare Ltd, a subsidiary of the Company. This is closed to new members and no further options will be granted under the LTIP 2014. In 2014, Iain Menneer and Chris Brewster were granted the following options

- Iain Menneer – 31,955 A Ordinary Shares of £1.00 each ("A Shares") for a total cash subscription of £31,955, representing 5.2% of Animalcare Ltd's issued share capital; and
- Chris Brewster – 19,173 A Shares, representing 3% of Animalcare Ltd's issued share capital and 11,800 B Ordinary Shares of £1.00 each ("B Shares"), representing a further 2% of Animalcare Ltd's issued share capital, for a total cash subscription of £30,973.

The total cash subscriptions were, based on independent valuation, considered to be equal to fair value at the time of acquisition. Both Directors had the right to sell their A Shares to the Company at any time after 27th June 2017 in exchange for Ordinary Shares of 20 pence each in the Company ("Ordinary Shares"). Their rights to sell the A Shares are subject to, amongst other provisions, the Company having a market capitalisation in excess of £39.0m ("the Hurdle") at the time of sale. The Hurdle was determined by the Remuneration Committee and broadly represented a 20% premium to the Company's market capitalisation on 27th June 2014. Each holder of A Shares would, on a sale of his entire holding to the Company, be entitled to receive Ordinary Shares representing a percentage of the increase in the Company's market capitalisation above the Hurdle; being 5% for Iain Menneer and 3% for Chris Brewster. Holders of the A Shares did not have a right to receive a dividend, except for any amounts distributed on the winding up of the Company or on an asset sale.

Holders of the B Shares were not entitled to participate in any increase in the value of the Company above the Hurdle but can be exchanged for Ordinary Shares of an equal value at any time after 27th June 2017. Holders of the B Shares had a right to an annual dividend (on a non-fixed coupon basis), calculated by applying a rate of LIBOR + 2% to the nominal value of the B Shares.

In June 2017, it was agreed between the Company, Iain Menneer and Chris Brewster that the options under the LTIP 2014 did not become exercisable as a result of the acquisition of Ecuphar NV. The Company however determined that it was appropriate to offer the right to exchange their shares in Animalcare Limited for Ordinary Shares shortly before completion of the acquisition, and each took up that right. As a consequence, 918,896 new Ordinary Shares were issued to Iain Menneer and Chris Brewster on 12th July 2017. The number of new Ordinary Shares issued pursuant to the exercise of these rights was determined using the lower of the closing middle market price for an Ordinary Share on 22nd June 2017, being the dealing day before the date the offer to exchange was made and the average of the closing middle market prices for an Ordinary Share over the dealing days in the 30 day period before that date, being 392.5 pence.

A new Long Term Incentive Plan, the Animalcare Group plc Long Term Incentive Plan 2017 ("the New LTIP") was approved by the Board in June 2017. A summary of the New 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). No options have been granted under the New LTIP as at the date of this report. The Nomination and Remuneration Committee will consider the grant of options to Executive Directors under the New LTIP during the current financial year.

Directors' Interests in the Share Capital of the Company

The Directors' interests in the share capital of the Company as at 31st December 2017 and the movements during the period covered by this report are set out below:

Director	Number of shares held as at 1st July 2016	Acquired/ (disposed) during the period	**Number of shares held as at 31st December 2017**	**Percentage of ISC as at 31st December 2017**
Jan Boone	–	50,171	**50,171**	**0.08**
Chris Brewster	4,079	276,434	**280,513**	**0.47**
Chris Cardon	–	13,857,297	**13,857,297**	**23.09**
Marc Coucke	–	13,857,297	**13,857,297**	**23.09**
Nick Downshire	1,109,583	(77,992)	**1,031,591**	**1.72**
James Lambert	1,313,691	–	**1,313,691**	**2.19**
Iain Menneer	17,739	584,193	**601,932**	**1.00**
Edwin Torr	–	107,455	**107,455**	**0.18**

In addition, as at 1st July 2016, Nick Downshire had a non-beneficial interest of 310,446 held via the Downshire 1992 Settlement Trust. On 16th August 2017, The Downshire 1992 Settlement Trust disposed of 120,000 shares. As at 31st December 2017, Nick Downshire had a non-beneficial interest of 190,446 shares.

JAMES LAMBERT
CHAIRMAN OF THE NOMINATION
AND REMUNERATION COMMITTEE

15th May 2018

Animalcare Group plc

DIRECTORS' REPORT

The Directors present their report on the Group and Company, together with the audited Consolidated Financial Statements of the Group for the year ended 31st December 2017 and the audited Financial Statements of the Company for the 18 month period ended 31st December 2017.

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 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 and dividend in the Chairman's Statement on page 02.

Corporate Governance and the Group's financial risk management objectives in the Corporate Governance report on pages 28 to 39.

Details of the salaries, bonuses, benefits and share interests of Directors in the Directors' remuneration report on page 36 and 37.

Directors' responsibility statements on page 40.

Likely future events and all post-balance sheet events are disclosed within the Strategic report on pages 10 to 25.

Directors and Directors' Interests

The names of the current Directors of the Company and their biographical details are shown on pages 26 to 27. Changes to directorships during the reporting period are shown on page 29. Details of Directors' interests in the shares of the Company are shown on page 37. This information is incorporated into this report by reference.

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 £3.9m (2016: £4.3m).

Articles of Association

Any 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 23 to the Consolidated Financial Statements on page 86.

Share capital

The Company's issued share capital as at 31st December 2017 was £11,982,780 divided into 59, 913,900 ordinary shares of 20 pence each. Further details of changes to the Company's issued share capital during the financial period are provided in note 21 to the Consolidated Financial Statements on page 84.

Since the end of the financial period, the Company allotted 100,619 ordinary shares of 20 pence each on 22nd February 2018, in respect of its Save As Your Earn (SAYE) Share Option Scheme. The Company's issued share capital as at 9th May 2018, being the latest practicable date before the publication of this report, was 60,014,519 ordinary shares of 20 pence each.

The Company's ordinary shares rank *pari passu* in all respects with each other, including for voting purposes and for all dividends. 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).

Directors' Liability Insurance

The Group purchases and maintains Directors' and Officers' liability insurance for the benefit of its Directors, which was in place throughout the period ended 31st December 2017 and remains in place at the date of this report.

Political Donations

No political donations were made during the year (2016: £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.

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 30th April 2018, a date not more than one month before the date of the notice of the Annual General Meeting:

Name of holder	No. of ordinary shares	% holding
Alychlo NV	13,857,297	23.09
Ecuphar Invest NV	13,857,297	23.09
Liontrust Asset Management	4,724,689	7.87
Hargreave Hale	2,188,591	3.65

Relationship Agreement

On 23rd June 2017, the Company entered into the 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.

Going Concern

The principal risks and uncertainties facing the Group are set out on pages 24 to 25.

For the purposes of their assessment of the appropriateness of the preparation of the Group's accounts on a going concern basis, the Directors have considered the current cash position and forecasts of future trading including working capital and investment requirements.

During the year the Group met its day-to-day general corporate and working capital requirements through existing cash resources. At 31st December 2017 the Group had cash on hand of £7.1m (30th June 2015: £5.8m).

Overall, the Directors believe the Group is well placed to manage its business risks successfully and continue to be profitable and cash generative. The Group's forecasts and projections, taking account of reasonable possible changes in trading performance, show that the Group should have sufficient cash resources to meet its requirements for at least the next 12 months. Accordingly, the adoption of the going concern basis in preparing the financial statements remains appropriate.

Auditors

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 auditor is 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 auditor is aware of that information.

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

A resolution to reappoint PricewaterhouseCoopers LLP as auditors and to authorise the Directors to determine their remuneration will be put to the members at the forthcoming Annual General Meeting.

Annual General Meeting

The Company's Annual General meeting will be held at 11.30 a.m. on Wednesday 27th June 2018 at the offices of Panmure Gordon, 1 New Change, London, EC4M 9AF. 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.co.uk

Approval

The Strategic report on pages 01 to 25 and this Directors' report on pages 38 to 39 were approved by the Board on 15th May 2018.

Approved by the Board and signed on its behalf

CHRIS BREWSTER
CHIEF FINANCIAL OFFICER
AND COMPANY SECRETARY

15th May 2018

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 period. 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 accounts, 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

15th May 2018

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ANIMALCARE GROUP PLC

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31st December 2017 and of the Group's profit and the Group's and the Company's cash flows for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the 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 Group and parent Company statements of financial position as at 31st December 2017; the Group income statement and statement of comprehensive income, the Group and parent Company statements of cash flows, and the Group and parent Company statements of changes in equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Our audit approach

Overview

- Overall Group materiality: £255,000, based on 2.5% of Adjusted EBITDA.
- Overall Company materiality: £100,000, based on the lower of component and statutory materiality (statutory materiality based on 0.5% of net assets).

- We, as the Group engagement team, audited the two components based in the UK- being Animalcare Group plc and Animalcare Limited.
- The components based overseas- being Ecuphar NV, Medini NV, Othopaedics and Ecuphar Spain- 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, review and discussion of audit findings, in particular over our areas of focus.
- As a result of this scoping we obtained coverage over 77% of the Group's external revenues and 88% of the Group's EBITDA.

- Accounting for the reverse acquisition of Ecuphar NV (Group and parent).
- Accounting for complex customer arrangements (Group).
- Carrying value of intangibles in relation to New Product Development (Group).

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 AUDITORS' REPORT TO THE MEMBERS OF ANIMALCARE GROUP PLC

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Accounting for the reverse acquisition of Ecuphar N.V. On 13th July 2017 the Group acquired 100% of the share capital of Ecuphar NV via a share-for-share exchange. In line with the requirements of IFRS 3, this is being accounted for as a reverse acquisition given the relative size of Ecuphar NV in comparison to Animalcare Group plc. We focused on this area because the accounting for acquisitions involves judgement and estimates that have a material impact on the amounts recognised in the Group Financial Statements, including: ○ determining the fair value of intangible assets acquired, which largely consists of Animalcare Group plc's proprietary product portfolio and pipeline of new products, and the useful economic lives of these identified intangibles; ○ determining the fair value of other assets and liabilities acquired; and ○ determining the appropriate disclosures and accounting treatment in relation to the reverse acquisition.	We obtained and read the relevant terms of the purchase agreements to inform our further audit procedures to test the accounting for the acquisition. We tested the recognition in the Consolidated Financial Statements of the fair value of the assets and liabilities acquired (and residual goodwill). In doing so, we: ○ tested the valuation of the acquired intangibles by testing if the assumptions used in the calculations were consistent with our understanding of the acquisition and through agreement to supporting evidence. In addition, we utilised our internal valuation experts to assess the reasonableness of the valuation methodology and other key assumptions driving the valuation, specifically the discount rate applied. We found no inconsistencies in the assumptions used in the valuation; and ○ considered whether any other intangible assets should have been identified, based on our understanding of the transaction, our knowledge of the business, the purchase agreements and discussions with the Directors; we did not identify any. We have also reviewed the financial statement disclosures to ensure that the reverse acquisition is appropriately disclosed in line with IFRS; we did not identify any issues.
Accounting for complex customer arrangements The Group provide rebate discounts and equipment deals to buying groups, corporate owned veterinary practices and independent veterinary practices. These are contractual and vary by customer and product type. We focused on this area because the amount of customer rebates payable in respect of the year is determined by the contract terms for each customer, which are negotiated separately and, as a result, differ from one another. This means that the calculation of the rebates recognised in the Income Statement, and as a payable at the year end, relies on a manual process, which is inherently more prone to error than systems-based processes. We also focused on the completeness of the Income Statement charge and year end provision due to the risk of potential omission given the manual nature of the process.	To test customer rebates, we: ○ recalculated, for a sample of customers, the customer rebate expense recognised within the Income Statement in the year, and provided for at the Balance Sheet date, finding them to be broadly consistent; ○ tested whether any rebate arrangements had been omitted from the amounts charged in the year, and liabilities held at the Balance Sheet date, by checking the contractual arrangements with the Group's most significant customers to make sure that all rebate arrangements had been identified by the Directors and did not identify any that had been omitted; and ○ agreed amounts settled with customers post period end to source documentation (credit notes and cash payment) to check they had been accounted for in the right accounting period, and found no instances of amounts recorded in the wrong period.

Key audit matter	How our audit addressed the key audit matter
Carrying value of intangibles in relation to New Product Development New Product Development expenditure is capitalised and amortised over the estimated economic life of the product when the relevant criteria of IAS 38 “Intangible assets” are met. Judgement is required when assessing the technical and commercial feasibility of New Product Development projects, including whether regulatory approval will be achieved. Given the level of judgement involved we have focused on this area. The risk we focused on is that the carrying value of these intangibles may be overstated and that an impairment charge may be required.	To assess the carrying value of intangibles in relation to New Product Development we have: ○ tested a sample of costs capitalised during the year to assess whether these have been appropriately treated in line with the Group’s accounting policy and accounting standards, most notably IAS 38 “Intangible assets”, and noted no issues; ○ met with management responsible for the particular costs to obtain an understanding of the associated project and to independently assess whether project costs meet the criteria for capitalisation as set out in accounting standards; we agreed with management’s judgements; ○ reviewed management’s feasibility analysis for ongoing new product development projects, which considers the payback period, being the point in time when the New Product Development will turn a profit based on its expected future earnings potential. This has been reviewed to assess the carrying value of the related intangible assets with no issues noted; and ○ determined that the disclosure detailed within note 10 is consistent with the requirements of IAS 38 “Intangible assets”.

How we tailored the audit scope

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

The Group operates through 13 components in a number of different countries. The procedures performed over the components (either by the Group team or PwC component audit teams) accounted for 77% of the Group’s external revenues and 88% of the Group’s EBITDA.

We, as the Group engagement team, 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 geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We, as the Group engagement team, performed an audit of the complete financial information for the two UK components – Animalcare Group plc and Animalcare Limited. For the remaining components of the Group, being Ecuphar NV, Medini NV, Othopaedics and Ecuphar Spain, PwC component auditors, under our instructions, performed an audit of their complete financial information.

Where the work was performed by PwC component auditors we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. We were involved at all stages of their audits by virtue of numerous communications throughout the process, including the issuance of detailed audit instructions, review and discussion of audit findings, in particular over our areas of focus. We, as the Group engagement team, were also responsible for other head office activities such as the Purchase Price Allocation in relation to the reverse acquisition of Ecuphar and the financial statement disclosures.

The procedures performed over the components (either by the Group team or PwC component audit teams) accounted for 77% of the Group’s external revenues and 88% of the Group’s EBITDA.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ANIMALCARE GROUP PLC

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	£255,000	£100,000
How we determined it	2.5% of Adjusted EBITDA.	Based on the lower of component and statutory materiality (statutory materiality based on 0.5% of net assets).
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, 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 is considered to be appropriate as it is not a profit-oriented company. The Company holds the investments in subsidiaries 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 £100,000 and £240,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £13,000 (Group audit) and £13,000 (Company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not 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 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

15th May 2018

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31ST DECEMBER 2017

	Notes	Underlying 2017 £'000	Non-underlying (note 5) 2017 £'000	Total 2017 £'000	Underlying 2016 £'000	Non-underlying (note 5) 2016 £'000	Total 2016 £'000
Revenue	6	83,676	–	83,676	68,361	–	68,361
Cost of sales	7.1	(49,012)	(401)	(49,413)	(40,086)	–	(40,086)
Gross profit		34,664	(401)	34,263	28,275	–	28,275
Research and development expenses	7.2	(2,048)	(751)	(2,799)	(1,504)	(272)	(1,776)
Selling and marketing expenses	7.3	(14,098)	–	(14,098)	(9,740)	–	(9,740)
General and administrative expenses	7.4	(10,814)	(3,590)	(14,404)	(10,384)	(2,223)	(12,607)
Net other operating income/(expenses)	7.5	55	(1,817)	(1,762)	73	1,814	1,887
Operating profit/(loss)		7,759	(6,559)	1,200	6,720	(681)	6,039
Financial expenses	7.8	(747)	–	(747)	(988)	–	(988)
Financial income	7.9	91	–	91	97	–	97
Profit/(loss) before tax		7,103	(6,559)	544	5,829	(681)	5,148
Income tax	7.10	(1,819)	1,459	(360)	(1,864)	232	(1,632)
Net profit/(loss)		5,284	(5,100)	184	3,965	(449)	3,516
Net profit/(loss) attributable to:							
The owners of the parent		5,284	(5,100)	184	3,965	(449)	3,515
Earnings per share attributable to ordinary owners of the parent							
Basic	8	12.6p		0.4p	16.7p		14.8p
Diluted	8	12.5p		0.4p	16.7p		14.8p

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 the consolidated financial information.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31ST DECEMBER 2017

	2017 £'000	2016 £'000
Net profit for the year	184	3,516
Other comprehensive income		
Financial instruments at fair value through OCI *	–	(5)
Cumulative translation differences *	664	2,515
Other comprehensive income, net of tax	664	2,510
Total comprehensive income for the year, net of tax	848	6,026
Total comprehensive income attributable to:		
The owners of the parent	848	6,026

* May be reclassified subsequently to profit & loss.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

YEAR ENDED 31ST DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Assets			
Non-current assets			
Goodwill	9	**51,413**	9,959
Intangible assets	10	**54,037**	21,246
Property, plant & equipment	11	**825**	719
Deferred tax assets	7.10	**1,603**	1,269
Other financial assets		**72**	69
Other non-current assets		**–**	1
Total non-current assets		**107,950**	33,263
Current assets			
Inventories	12	**16,795**	13,254
Trade receivables	13	**16,680**	10,781
Available-for-sale financial assets	20	**464**	423
Other current assets	13	**1,934**	1,191
Cash and cash equivalents	14	**7,579**	951
Total current assets		**43,452**	26,600
Total assets		**151,402**	59,863
Liabilities			
Current liabilities			
Borrowings	16	**(633)**	(631)
Trade payables	15	**(14,128)**	(10,012)
Tax payables		**(2,741)**	(1,774)
Accrued charges & deferred income	18	**(2,116)**	(812)
Other current liabilities	19	**(1,980)**	(2,237)
Total current liabilities		**(21,598)**	(15,466)
Non-current liabilities			
Borrowings	16	**(32,854)**	(24,102)
Deferred tax liabilities	7.10	**(6,454)**	(224)
Deferred income	18	**(780)**	–
Provisions	17	**(72)**	(216)
Total non-current liabilities		**(40,160)**	(24,542)
Total Liabilities		**(61,758)**	(40,008)
Net Assets		**89,644**	19,855
Equity			
Share capital	21	**11,983**	4,244
Share premium	21	**132,588**	6,687
Reverse acquisition reserve		**(56,762)**	5,146
Retained earnings		**(1,347)**	1,258
Other reserves		**3,180**	2,518
Equity attributable to the owners of the parent		**89,642**	19,853
Non-controlling interest	21	**2**	2
Total equity		**89,644**	19,855

The accompanying notes form an integral part of these consolidated financial statements.

The financial statements of Animalcare Group Plc, registered number 1058025, were approved by the board of directors and authorized for issue on 15th May 2018. They were signed on behalf by:

CHRIS CARDON
CHIEF EXECUTIVE OFFICER

CHRIS BREWSTER
CHIEF FINANCIAL OFFICER

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31ST DECEMBER 2017

	Attributable to the owners of the parent								
	Share capital £'000	Share premium £'000	Treasury shares £'000	Retained earnings £'000	Reverse acquisition reserve £'000	Other reserve £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
At 1st January 2017	4,244	6,687	–	1,258	5,146	2,518	19,853	2	19,855
Net profit	–	–	–	184	–	–	184	–	184
Other comprehensive income	–	–	–	–	–	662	662	–	662
Total comprehensive income	–	–	–	184	–	662	846	–	846
Dividends paid	–	–	–	(2,816)	–	–	(2,816)	–	(2,816)
Shares issued as consideration	5,750	94,880	–	–	–	–	100,630	–	100,630
Exercise of share options	275	3,953	–	–	–	–	4,228	–	4,228
Share issue cost	–	(1,218)	–	–	–	–	(1,218)	–	(1,218)
Arising on reverse acquisition	–	–	–	–	(61,908)	–	(61,908)	–	(61,908)
Issue of new shares	1,714	28,286	–	–	–	–	30,000	–	30,000
Share-based payments	–	–	–	27	–	–	27	–	27
At 31st December 2017	**11,983**	**132,588**	**–**	**(1,347)**	**(56,762)**	**3,180**	**89,642**	**2**	**89,644**

	Attributable to the owners of the parent								
	Share capital £'000	Share premium £'000	Treasury shares £'000	Retained earnings £'000	Reverse acquisition reserve £'000	Other reserve £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
At 1st January 2016	7,256	8,821	(646)	(142)	–	8	15,297	2	15,299
Net profit	–	–	–	3,515	–	–	3,515	–	3,515
Other comprehensive income	–	–	–	–	–	2,510	2,510	–	2,510
Total comprehensive income	–	–	–	3,515	–	2,510	6,025	–	6,025
Dividends paid	–	–	–	(1,469)	–	–	(1,469)	–	(1,469)
Capital increase in cash	–	–	646	(646)	–	–	–	–	–
	–	–	–	–	–	–	–	–	–
At 31st December 2016	7,256	8,821	–	1,258	–	2,518	19,853	2	19,855
Arising on reverse acquisition	(3,012)	(2,134)	–	–	5,146	–	–	–	–
At 31st December 2016	**4,244**	**6,687**	**–**	**1,258**	**5,146**	**2,518**	**19,853**	**2**	**19,855**

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 31ST DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Operating activities			
Profit before tax		**544**	5,148
Non-cash and operational adjustments			
Depreciation of property, plant and equipment	11	**327**	326
Amortisation of intangible assets	10	**6,053**	3,982
Share-based payment expense		**27**	–
Loss/(gain) on disposal of property, plant and equipment		**2**	(1)
Movement in allowance for bad debt and inventories		**652**	536
Financial income	7.9	**(91)**	(97)
Financial expense	7.8	**747**	988
Impact of foreign currencies		**25**	1,787
Gain from sale of subsidiaries	4	**–**	(2,432)
Other		**(30)**	30
Movements in working capital			
Increase in trade receivables		**(2,079)**	(1,447)
Decrease /(increase) in inventories		**(1,359)**	(890)
(Decrease)/increase in payables		**(2,115)**	2,530
Income tax paid		**(278)**	(1,172)
Net cash flow from operating activities		**2,425**	9,288
Investing activities			
Purchase of property, plant and equipment	11	**(184)**	(463)
Purchase of intangible assets	10	**(2,379)**	(1,185)
Proceeds from the sale of property, plant and equipment (net)		**31**	74
Payments to acquire subsidiaries	4	**(33,145)**	–
Cash and cash equivalents acquired under reverse acquisition	4	**6,293**	–
Proceeds from sale of subsidiary	4	**–**	3,211
Purchase available for sale financial investments		**(45)**	(409)
Net cash flow used in investing activities		**(29,429)**	1,228

CONSOLIDATED CASH FLOW STATEMENT CONTINUED

YEAR ENDED 31ST DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Financing activities			
Proceeds from loans and borrowings and convertible debt		**8,298**	15,852
Repayment of loans and borrowings		**(649)**	(23,925)
Receipts from issue of share capital		**29,402**	–
Dividends paid		**(2,816)**	(1,469)
Interest paid		**(528)**	(663)
Other financial expense		**(129)**	(241)
Net cash flow from financing activities		**33,578**	(10,446)
Net increase of cash and cash equivalents		**6,574**	70
Cash and cash equivalents at beginning of the year	14	**951**	749
Exchange rate differences on cash and cash equivalents		**54**	132
Cash and cash equivalents at end of the year	14	**7,579**	951
Reconciliation of net cash flow to movement in net debt			
Net increase in cash and cash equivalents in the year		**6,574**	70
Cash flow from (increase)/decrease in debt financing		**(7,649)**	8,073
Foreign exchange differences on cash and borrowings		**(1,051)**	(4,045)
Movement in net debt in the year		**(2,126)**	4,098
Net debt at the start of the year		**(23,782)**	(27,880)
Net debt at the end of the year		**(25,908)**	(23,782)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 2017

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 Group comprises Animalcare Group plc and its subsidiaries. The nature of the Group's operations and its principal activities are set out in note 6 and 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"), the Companies Act 2006 as applicable to companies reporting under IFRS and the IFRS Interpretations Committee (IFRIC) interpretation. 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 judgement in applying the Group's accounting policies. The areas where significant judgement 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.

On 13th July 2017 the Company acquired the entire issued ordinary share capital of Ecuphar NV and became the legal parent of Ecuphar NV.

The accounting policy adopted by the Directors applies 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).

This policy reflects the commercial substance of this transaction as follows:

- The original shareholders of the legal subsidiary undertaking were the most significant shareholders following admission to AIM, owning 46.9% of the issued share capital;
- The assets and liabilities of the legal subsidiary Ecuphar NV are recognised and measured in the Group financial statements at the pre-combination carrying amounts without restatement to fair value;
- The retained earnings and other equity balances recognised in the Group financial statements reflect the retained earnings and other equity balances of Ecuphar NV immediately before the business combination
- The results of the period from 1st January 2017 to the date of the business combination are those of Ecuphar NV;
- The equity structure appearing in the Group financial statements reflects the equity structure of the legal parent, including the equity instruments issued under the share-for-share exchange to effect the business combination and adjusted in accordance with IFRS 3. This results in the creation of a "reverse acquisition reserve" as at 1st January 2017, being the difference between the Company equity structure and that of Ecuphar NV.

The consolidated financial statements cover the year ended 31st December 2017. The financial statements for the comparative year ended 31st December 2016 represent the substance of the reverse acquisition and are those of Ecuphar NV.

3 Summary of Significant Accounting Policies

Going concern

An analysis of the factors likely to impact on the Group's future business activities, performance and strategy are set out in the Chief Executive's Review and Chief Financial Officer's Review. The principal risks and uncertainties facing the Group are set out in the Strategic Report on pages 01 to 25.

For the purposes of their assessment of the appropriateness of the preparation of the Group's accounts on a going concern basis, the Directors have considered the current cash position and forecasts of future trading including working capital and investment requirements.

During the year, the Group met its day-to-day general corporate and working capital requirements through existing cash resources. At 31st December 2017 the Group had cash on hand of £7,579k (2016: £951k).

Overall, the Directors believe the Group is well placed to manage its business risks successfully. The Group's forecasts and projections, taking account of reasonable possible changes in trading performance, show that the Group should have sufficient cash resources to meet its requirements for at least the next 12 months. Accordingly, the adoption of the going concern basis in preparing the financial statements remains appropriate.

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 accounts 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. The Group has not elected to take the option to use fair value in acquisitions completed to date and currently only has minor non-controlling interest resulting from business combinations.

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. The Group has two operating segments: Pharmaceutical and Wholesale.

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 year-end. 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.

3 Summary of Significant Accounting Policies (continued)

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 the 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 exceed 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
Leased equipment	4–5 years
Leasehold improvements	5 years or lease term if shorter

Land is not depreciated.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset or the lease term.

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 determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are recognised as financial expenses in the consolidated income statement.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rentals payable under the lease are charged to the consolidated income statement on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

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 capitalised software.

The useful life of the intangible assets is as follows:

- Capitalised software: 5 years;
- Patents, distribution rights and licenses: 7–12 years;
- Product portfolios and product development: 10 years;
- 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 recognized 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

YEAR ENDED 31ST DECEMBER 2017

3 Summary of Significant Accounting Policies (continued)

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 that 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.

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).

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 law subject to minimum guaranteed rates of return, currently 3.25% on employer contributions and 3.75% on employee contributions. These rates have been modified by the law of 18th December 2015 and 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%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

YEAR ENDED 31ST DECEMBER 2017

3 Summary of Significant Accounting Policies (continued)

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 participant, between the minimum guaranteed reserves and the benefits accrued at the closing date based on the actual rates of return.

The impact of the defined contribution plans accounted for as a defined benefit plan is not material.

Contributions are recognized as expenses for the period in which employees perform the corresponding services. Outstanding payments at the end of the period 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

Sales of goods

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes.

Revenue from the sale of goods is recognised when all of the following five conditions are met:

- The Group transfers to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The Group can measure reliably the amount of revenue;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The Group can measure reliably the costs incurred or to be incurred in respect of the transaction.

Trade goods include goods produced for the purpose of sale and goods purchased for resale.

The Group bases its estimate of returns on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of services

When the outcome of a transaction involving the rendering of services is estimated reliably, revenue associated with the transaction is recognised when the services are rendered. The outcome of a transaction is estimated reliably when all of the following four conditions are satisfied:

- The amount of revenue is measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group;
- The stage of completion of the transaction at the balance sheet date can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction are measured reliably.

In general, these services are invoiced as they are performed and the amounts directly recognised in the income statement and do not require the measurement of the stage of completion.

Upfront 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 is 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 is 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 period 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 period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Current income tax relating to items that are recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Events after balance sheet date

Events after the balance sheet date which provide additional information about the Company's position as at the balance sheet date (adjusting events) are reflected in the financial statements. Events after the balance sheet date which are not adjusting events are disclosed in the notes if material.

New and revised standards not yet adopted

Standards and interpretations applicable for the annual period beginning on 1st January 2017:

- Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative , effective 1st January 2017
- Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses, effective 1st January 2017
- Annual Improvements Cycle - 2014-2016 – Amendments to IAS 12, effective 1st January 2017

The application of those IFRS standards had no material effect on the 2017 consolidated financial statements of the Group.

The standards and interpretations that are issued, but not yet effective, up to the closing date of the Group's financial statements are disclosed below.

IFRS 9 Financial Instruments and subsequent amendments

The final version of IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1st January 2018. Early application is permitted by applying all of the requirements in this standard at the same time. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

3 Summary of Significant Accounting Policies (continued)

The Group plans to adopt the new standard on the required effective date. The Group has performed an impact assessment of all three aspects of IFRS 9. Overall, the Group expects no significant impact on its balance sheet and equity of applying the impairment requirements of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 specifies how and when a company will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers as follows:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1st January 2018. Early adoption is permitted.

The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2017, the Group performed an assessment of IFRS 15. This analysis showed that there is no material impact on the results of the Group.

IFRS 16, Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17 Leases. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's lessor accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

The new standard is effective for annual periods beginning on or after 1st January 2019. Early application is permitted, but not before an entity applies IFRS 15 Revenue from Contracts with Customers. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

As at the reporting date, the Group has non-cancellable operating lease commitments of £3,302k, see note 22. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

The other standards, interpretations and amendments issued by the IASB (all of them still subject to endorsement by the European Union) but not yet effective are not expected to have a material impact on the Group's future consolidated financial statements, and those applicable for the Group are listed below:

- Amendments to IFRS 2 Share-based Payment - Classification and Measurement of Share-based Payment Transactions (applicable for annual periods beginning on or after 1st January 2018).
- Amendments to IFRS 4 Insurance Contracts – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (applicable for annual periods beginning on or after 1st January 2018).
- IFRS 9 Financial Instruments (applicable for annual periods beginning on or after 1st January 2018).
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (applicable for annual periods beginning on or after 1st January 2019, but not yet endorsed in the EU).
- IFRS 15 Revenue from Contracts with Customers, including amendments to IFRS 15: Effective date of IFRS 15 and Clarifications to IFRS 15 Revenue from Contracts with Customers (applicable for annual periods beginning on or after 1st January 2018).
- IFRS 16 Leases (applicable for annual periods beginning on or after 1st January 2019).
- IFRS 17 Insurance Contracts (applicable for annual periods beginning on or after 1st January 2021, but not yet endorsed in the EU).

- Amendments to IAS 40 Investment Property – Transfers of Investment Property (applicable for annual periods beginning on or after 1st January 2018).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (applicable for annual periods beginning on or after 1st January 2018, but not yet endorsed in the EU).
- IFRIC 23 Uncertainty Over Income Tax Treatments (applicable for annual periods beginning on or after 1st January 2019, but not yet endorsed in the EU).
- Annual Improvements Cycle - 2014-2016 – Amendments to IFRS 1 and IAS 28 (applicable for annual periods beginning on or after 1st January 2018).
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (applicable for annual periods beginning on or after 1st January 2019, but not yet endorsed in the EU).
- Annual Improvements Cycle – 2015-2017 (applicable for annual periods beginning on or after 1st January 2019, but not yet endorsed in the EU).
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (applicable for annual periods beginning on or after 1st January 2019, but not yet endorsed in the EU).

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.

Capitalised software expenditure

The Group has historically capitalised software projects and developments. Expenditure on a bespoke web-based system, designed to facilitate online ordering of its products and services, is currently capitalised in the Group's financial statements as the Directors have adjudged it to meet the relevant criteria. The rate of depreciation on capitalised software is set so as to reflect the pattern of usage and the level of pace of change within the global information technology market.

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 31st December 2017, the Group had £664k (2016: £255k) 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.

3 Summary of Significant Accounting Policies (continued)

Impairment of goodwill

The Group has goodwill for a total amount of £51,413k (2016: £9,959k) which has been subject to an impairment test. The goodwill is tested for impairment based on the Fair Value Less Costs of Disposal (FVLCD) method which uses sales and EBITDA multiples. The key assumptions used to determine the recoverable amount for the different CGU's are disclosed and further explained in note 9.

No impairment charges have been recorded during the reported periods.

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.

Business combinations

The Group determines and allocates the purchase price of an acquired business to the assets acquired and liabilities assumed as of the business combination date. The purchase price allocation process requires the Group to use significant estimates and assumptions, including:

- estimated fair value of the acquired intangible assets;
- estimated fair value of property, plant and equipment;

While the Group is using its best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the date of acquisition, our estimates and assumptions are inherently uncertain and subject to refinement. Examples of critical estimates in valuing certain of the intangible assets the Group has acquired or may acquire in the future include but are not limited to:

- future expected cash flows from customer contracts and relationships, software licence sales and maintenance agreements;
- the fair value of the plant and equipment;
- the fair value of the deferred revenue;
- discount rates; and
- the determination of useful lives and amortisation period of acquired intangible assets.

4 Business Combinations and Disposals of Subsidiaries

Business combinations

Reverse acquisition of Animalcare Group plc

On 13th July 2017 Animalcare Group plc acquired 100% of the share capital of Ecuphar NV for a total consideration of £133,775k, satisfied through a combination of a share-for-share exchange and £33,145k in cash net of commissions.

The acquisition of Ecuphar NV by Animalcare Group plc is deemed to be a reverse acquisition under the provisions of IFRS 3 "Business Combinations".

In accounting for a reverse acquisition (rather than an acquisition) the combined financial statements are deemed to be a continuation of the books of the legal acquiree (Ecuphar NV) rather than a continuation of those of the legal acquirer (Animalcare Group plc).

The assets and liabilities of Ecuphar NV are recognised and measured in the Group financial statements at the pre-combination carrying amounts, without restatement to fair value and no goodwill arises in relation to them.

Conversely, the assets of Animalcare Group plc and Animalcare Ltd are consolidated at their fair values.

The overall effect is that the consolidated financial statements are prepared from an Ecuphar NV perspective rather than Animalcare Group plc, and in summary this means:

- the comparative consolidated financial information is that of Ecuphar NV rather than that of Animalcare Group plc;
- the result for the year and consolidated cumulative profit and loss reserves are those of the Ecuphar NV plus the post-acquisition results of the Animalcare Group plc;
- a reverse acquisition reserve of (£56,762k) has been created;
- the share capital and share premium account are that of Animalcare Group plc; and
- the cost of the combination has been determined from the perspective of Ecuphar NV.

Goodwill arises on the reverse acquisition when comparing the deemed fair value consideration of Animalcare Group plc acquiring the shares of Ecuphar NV. The fair value of the consideration is the market capitalisation of Animalcare Group plc at the acquisition date based on the closing share price on 12th July of 355p per share.

Reverse acquisition – Animalcare Group plc

	Carrying value at acquisition date £'000	Fair value adjustments £'000	Fair value at acquisition date £'000
Assets			
Historical goodwill	12,711	(12,711)	–
Intangible assets	4,658	30,957	35,615
Tangible assets	227	–	227
Deferred tax asset	149	885	1,034
Inventory	2,014	401	2,415
Trade receivables	3,392	–	3,392
Other current assets	559	–	559
Cash	6,293	–	6,293
	30,003	**19,532**	**49,535**
Liabilities			
Financial debts	–	–	–
Deferred tax liabilities	(414)	(6,843)	(7,257)
Trade payables	(3,948)	–	(3,948)
Other liabilities	(4,040)	–	(4,040)
	(8,402)	**(6,843)**	**(15,245)**
Total identified assets and liabilities	**21,601**	**12,689**	**34,290**
Goodwill			41,048
Fair value of consideration	**–**	**–**	**75,338**

The acquisition consideration, net assets and goodwill are based upon the reverse acquisition of Animalcare Group plc by Ecuphar NV. The fair value of the consideration is the market capitalisation of Animalcare Group plc at the closing share price of 355p per share on 12th July 2017. Transaction costs of equity transactions relating to the issue and readmission of the Company's shares are accounted for as a deduction from equity where they relate to the issue of new shares.

The fair value of the net assets acquired and shown in the table above was £34,290k. The fair value of the consideration was £75,338k resulting in goodwill on reverse acquisition of £41,048k. In addition, the fair value uplift of inventory amounted to £401k, and the fair value uplift of the identified intangibles amounted to £30,957k. Deferred tax assets and liabilities respectively were increased by £885k and (£6,843k).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

YEAR ENDED 31ST DECEMBER 2017

Disposal of subsidiaries

Nutriscience

On 31st October 2016 the Group entered into a share purchase agreement with Swedencare AB regarding the sale of one of its subsidiaries, Nutriscience Ltd. The consideration received by the Group amounts to £3,507k and this resulted in a gain of £2,432k. The effect of this transaction on the financial position and cash flows of the Group is as follows:

Nutriscience

	Carrying value at selling date £'000
Assets	
Goodwill	419
Property, plant and equipment	53
Inventories	407
Trade receivables	419
Other receivables	37
Cash and cash equivalents	296
	1,631
Liabilities	
Financial debts	–
Trade payables	(315)
Other payables	(241)
	(556)
Total assets and liabilities	**1,075**
Gain on sale of Nutriscience	2,432
Selling price received in cash	**3,507**
Cash flow from sale	
Cash and cash equivalents transferred	(296)
Selling price	3,507
Total cash flow	**3,211**

This disposal did not meet the IFRS 5 criteria as a component of a group, as a separate major line of business or as a geographical area of operations. Therefore, discontinued operations and asset held for sale disclosures were not required.

5 Non-underlying Items

	2017 £'000	2016 £'000
Amortisation of acquisition-related intangibles		
Classified within Research and development expenses	**751**	272
Classified within General and administrative expenses	**3,590**	2,223
Total amortisation of acquisition-related intangibles	**4,341**	2,495
Fair value uplift of inventory acquired through reverse acquisition	**401**	–
Acquisition and integration costs	**1,454**	–
Gain on sale of Nutriscience	**–**	(2,432)
Other non-underlying items	**362**	618
Total non-underlying items before taxes	**6,559**	681
Tax impact	**(1,459)**	(232)
Total non-underlying items after taxes	**5,100**	449

The amortisation charge of acquisition-related intangibles largely relates to the Esteve acquisition of £2,017k (2016: £1,880k) and the reverse acquisition of Animalcare Group plc of £1,685k.

6 Segment Information

For management purposes, the Group is organised into two segments: the Pharmaceuticals and the Wholesale segments.

The Pharmaceuticals segment is active in the development and marketing of innovative pharmaceutical products that provide significant benefits to animal health.

The Wholesale segment focuses on the sale of veterinary pharmaceuticals, supplies and instruments in the Belgian market.

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 is considered 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.

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The following table summarises the segment reporting for each of the reportable periods ending 31st December. 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.

	Pharma £'000	Wholesales £'000	Total segments £'000	Adjustments and eliminations £'000	Consolidated £'000
For the year ended 31st December 2017					
Revenues	**62,291**	**23,938**	**86,229**	**(2,553)**	**83,676**
Gross Margin	**31,924**	**2,415**	**34,339**	**(76)**	**34,263**
Gross Margin %	**51%**	**10%**	**40%**		**41%**
Segment underlying EBITDA	**9,698**	**289**	**9,987**	**–**	**9,987**
Segment underlying EBITDA %	**16%**	**1%**	**12%**		**12%**
Segment EBITDA	**7,496**	**273**	**7,769**	**–**	**7,769**
Segment EBITDA %	**12%**	**1%**	**9%**		**9%**
For the year ended 31st December 2016					
Revenues	48,355	21,831	70,186	(1,825)	68,361
Gross Margin	26,007	2,272	28,279	(4)	28,275
Gross Margin %	54%	10%	40%		41%
Segment underlying EBITDA	8,420	485	8,905	8	8,913
Segment underlying EBITDA %	17%	2%	13%		13%
Segment EBITDA	10,235	484	10,719	8	10,727
Segment EBITDA %	21%	2%	15%		16%

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

	2017 £'000	2016 £'000
Segment EBITDA	**7,769**	10,727
Depreciation, amortisation and impairment	**(6,569)**	(4,689)
Operating profit	**1,200**	6,038
Financial expenses	**(747)**	(988)
Financial income	**91**	97
Income taxes	**(643)**	(1,305)
Deferred taxes	**283**	(327)
Net profit	**184**	3,515

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

	2017 £'000	2016 £'000
Belgium	19,691	21,378
Spain	2,170	2,229
Portugal	4,101	3,913
UK	76,010	–
Other	4,375	4,474
Non-current assets excluding deferred tax assets and financial instruments	106,347	31,994

Revenue by product category:

	2017 £'000	2016 £'000
Companion animals	42,791	30,799
Production animals	28,390	22,668
Horses	4,718	5,567
Pet food, instrumentals and services	7,777	9,327
Total	83,676	68,361

Revenue by geographical area:

	2017 £'000	2016 £'000
Europe	82,803	67,842
Belgium	29,501	27,797
The Netherlands	1,726	1,434
United Kingdom	9,459	2,516
Germany	8,930	6,714
Spain	20,909	18,695
Italy	4,458	3,559
Portugal	4,514	4,044
European Union – other	3,306	3,083
Asia	473	309
Middle East and Africa	47	5
Other	353	205
Total	83,676	68,361

Revenue by category:

	2017 £'000	2016 £'000
Product sales	83,314	67,656
Services sales	362	705
Total	83,676	68,361

7 Income and Expenses

7.1 Cost of sales

Cost of sales includes the following expenses:

	2017 £'000	2016 £'000
Purchase of goods and services	48,156	38,917
Inventory and other write-downs	478	682
Payroll expenses	417	242
Other expenses	362	245
Total	49,413	40,086

7.2 Research and development expenses

Research and development expenses include the following:

	2017 £'000	2016 £'000
Amortisation and depreciation	749	269
Payroll expenses	1,958	1,507
Other	92	–
Total	2,799	1,776

7.3 Selling and marketing expenses

Selling and marketing expenses include the following:

	2017 £'000	2016 £'000
Transport costs of sold goods	979	907
Promotion costs	2,438	2,002
Payroll expenses	9,089	6,081
Amortisation and depreciation	25	23
Other	1,567	727
Total	14,098	9,740

7.4 General and administrative expenses

General and administrative expenses include the following:

	2017 £'000	2016 £'000
Amortisation and depreciation	**5,552**	3,962
Payroll expenses	**2,826**	3,448
Other	**6,026**	5,197
Total	**14,404**	12,607

7.5 Net other operating (expense) income

The net other operating (expense) income can be detailed as follows:

	2017 £'000	2016 £'000
Re-invoicing costs	**5**	11
Losses on disposals of fixed assets	**(2)**	–
Other operating income	**262**	2,453
Impairments	**(35)**	(29)
Other operating expenses	**(1,992)**	(548)
Total	**(1,762)**	1,887

Other operating expenses for 2017 mainly relate to the reverse acquisition of Animalcare Group plc.

Other operating income for 2016 mainly relates to a gain of £2,432k on the sale of Nutriscience Ltd on 31 October 2016. Impairments were recorded in 2017 and 2016 on certain intangible assets of £35k and £29k respectively.

Other operating expenses incurred during 2016 mostly relate to the loss on disposal of intangibles related to Nutriscience Ltd and Sogeval.

7.6 Expenses by nature

	2017 £'000	2016 £'000
Other operating lease rentals	**1,899**	1,365
Employee expenses	**13,873**	11,036
Depreciation and amortisation	**6,381**	4,254
Transport costs of sold goods	**979**	1,046
Promotion costs	**2,668**	2,207
Other operating expense/(income) – see note 7.5	**1,762**	(1,887)
Other expenses	**5,501**	4,215
Total expenses	**33,063**	22,236

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7.7 Payroll expenses

The following table shows the breakdown of payroll expenses for 2017 and 2016:

	2017 £'000	2016 £'000
Wages and salaries	10,655	8,421
Social security expenses	2,197	1,875
Other employee expenses	1,440	982
Total	14,292	11,278
Average registered employees during the year	265	179

Key management following the reverse acquisition comprises the Board of Directors. Details of the remuneration, share options and shareholdings are included in the Annual Remuneration Report on pages 36 to 37.

Emoluments of the Directors for the year ended 31st December 2017 in accordance with the basis of preparation were as follows:

	Salary £'000	Bonus £'000	Company pension contributions £'000	Benefits £'000	Termination benefits £'000	Total 2017 £'000
W Beyers[1]	177	–	–	–	70	247
J Boone* (appointed 13th July 2017)	35	–	–	–	–	35
C Brewster (appointed 26th September 2017)	54	–	6	3	–	63
C Cardon[2]	345	–	–	–	–	345
M Coucke*[3]	45	–	–	–	–	45
Lord Downshire*[4]	19	–	–	2	–	21
J S Lambert*[4]	19	–	–	–	–	19
Dr I D Menneer[4]	110	–	13	5	–	128
E Torr* (appointed 13th July 2017)	19	–	–	–	–	19
J Bastijns	224	16	–	–	–	240
P Derks	–	–	–	–	60	60
L Vanmullem	152	16	–	–	–	168
E Gil	208	51	13	57	–	329
Total	1,407	83	32	67	130	1,719

* Indicates Non-Executive Directors

1. W Beyers was a Director of the newly formed Group from 13th July 2017 to 26th September 2017, and a Director of Ecuphar NV from 1st January 2017. The remuneration included above is for the period from 1st January 2017 to 26th September 2017.
2. C Cardon was a Director of the newly formed Group from 13th July 2017 and a Director of Ecuphar NV for the year. The remuneration included above is for the year ended 31st December 2017.
3. M Coucke was a Director of the newly formed Group from 13th July 2017 and a Director of Ecuphar NV for the year. The remuneration included above is for the year ended 31st December 2017.
4. Were Directors of Animalcare Group plc from 1st January 2017 to 31st December 2017. The remuneration included above is for the period from 13th July 2017 to 31st December 2017.

For the year ended 2016, the emolument of key management personnel of Ecuphar NV was as follows:

	Salary	Bonus	Company pension contributions	Benefits	Compensation for loss of office	Total
C Cardon	373	22	–	–	–	395
J Bastijns	225	18	–	–	–	243
P Derks	243	18	–	–	–	261
W Beyers	174	–	–	–	–	174
L Vanmullem	142	–	–	–	–	142
E Gil	191	106	–	–	–	297
M Couke*	98	–	–	–	–	98
Total	1,377	164	–	–	–	1,610

* Indicates Non-Executive Directors

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

Share options:

I D Menneer

Scheme	EMI	Unapproved	Unapproved	SAYE	Total
Exercise price	£1.325	£1.40	£1.415	£1.05	
Date of grant	20th November 2012	21st February 2013	20th June 2013	28th November 2014	
Acquired during the year	50,000	90,000	90,000	5,142	235,142
Exercised during the period	(50,000)	(90,000)	(90,000)	–	(230,000)
Open at 31st December 2017	**–**	**–**	**–**	**5,142**	**5,142**

C J Brewster

Scheme	EMI	EMI	SAYE	Total
Exercise price	£1.30	£1.415	£1.05	
Date of grant	2nd August 2012	20th June 2013	28th November 2014	
Acquired during the year	30,000	40,000	8,571	78,571
Exercised during the period	(30,000)	(40,000)	–	(70,000)
Open at 31st December 2017	**–**	**–**	**8,571**	**8,571**

In connection with the reverse acquisition of Ecuphar NV, all vested options were exercised following completion on 13th July 2017.

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Long Term Incentive Plan (LTIP)

Under the Animalcare Group plc LTIP, which was introduced in June 2014, the Directors' interests in the LTIP, which was implemented via a subscription for growth shares in the capital of Animalcare Ltd, a subsidiary of the Company, are as follows:

- Iain Menneer – 31,955 A Ordinary Shares of £1.00 each ("A Shares") for a total cash subscription of £31,955, representing 5.2% of Animalcare Ltd's issued share capital; and
- Chris Brewster – 19,173 A Shares, representing 3% of Animalcare Ltd's issued share capital and 11,800 B Ordinary Shares of £1.00 each ("B Shares"), representing a further 2% of Animalcare Ltd's issued share capital, for a total cash subscription of £30,973.

The total cash subscriptions were, based on independent valuation, considered to be equal to fair value at the time of acquisition.

Dr Menneer and Mr Brewster had the right to sell their A Shares to the Company at any time after 27th June 2017 in exchange for Ordinary Shares of 20 pence each in the Company ("Ordinary Shares"). Their rights to sell the A Shares are subject to, amongst other provisions, the Company having a market capitalisation in excess of £39.0m ("the Hurdle") at the time of sale. The Hurdle was determined by Animalcare's Remuneration Committee and broadly represented a 20% premium to the Company's market capitalisation on 27th June 2014. Each holder of A Shares would, on a sale of his entire holding to the Company, be entitled to receive Ordinary Shares representing a percentage of the increase in the Company's market capitalisation above the Hurdle; being 5% for Dr Menneer and 3% for Mr Brewster. The A Shares do not have a right to receive a dividend, except for any amounts distributed on the winding up of the Company or on an asset sale.

The B Shares are not entitled to participate in any increase in the value of the Company above the Hurdle but can be exchanged for Ordinary Shares of an equal value at any time after 27th June 2017. The B Shares have a right to an annual dividend (on a non-fixed coupon basis), calculated by applying a rate of LIBOR + 2% to the nominal value of the B Shares.

Further details of the Plan, including the Hurdle, anti-dilution and other provisions, are set out in Animalcare Ltd's articles of association, which is available within the Investors section (constitutional documents) of the Company's website at http://www.animalcaregroup.co.uk.

It was agreed between the Company, Dr Menneer and Mr Brewster, that the put options did not become exercisable as a result of the reverse acquisition of Ecuphar NV. The Company however, determined that it was appropriate to offer the right to exchange their shares in Animalcare Ltd for Ordinary Shares shortly before completion of the reverse acquisition, and each took up that right. As a consequence, 918,896 new Ordinary Shares were issued to Dr Menneer and Mr Brewster. The number of new Ordinary Shares issued pursuant to the exercise of these rights was determined using the lower of the closing middle market price for an Ordinary Share on 22nd June 2017, being the dealing day before the date the offer to exchange was made and the average of the closing middle market prices for an Ordinary Share over the dealing days in the 30th day period before that date, being 392.5 pence.

7.8 Financial expenses

Financial expenses include the following elements:

	2017 £'000	2016 £'000
Interest expense	528	663
Foreign currency losses	118	81
Change in fair value – losses on financial instruments	–	–
Other financial expenses	101	244
Total	**747**	988

7.9 Financial income

Financial income includes the following elements:

	2017 £'000	2016 £'000
Foreign currency exchange gains	69	28
Change in fair value – gains on financial instruments	–	18
Other financial income	22	51
Total	**91**	97

7.10 Income tax expense

Income tax

The following table shows the breakdown of the tax expense for 2017 and 2016:

	2017 £'000	2016 £'000
Current tax		
Current tax charge	(821)	(1,335)
Tax adjustments in respect of previous years	178	30
Total current tax charge	**(643)**	(1,305)
Deferred tax		
Deferred tax – origination and reversal of temporary differences	283	(327)
Total tax expense for the year	**(360)**	(1,632)

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

	2017 £'000	2016 £'000
Profit before tax	544	5,147
Income tax at weighted average tax rate	(4)	(1,310)
Non-deductible expenses	(212)	(90)
Income not subject to tax	66	–
Other tax credits and tax deductions	(1)	62
Other permanent tax differences	(56)	(73)
Other taxes	(37)	(29)
Tax adjustments in respect of previous year	178	30
Changes in statutory enacted tax rate	(294)	(68)
Withholding taxes on acquisition treasury shares	–	(154)
Income tax expense as reported in the consolidated income statement	**(360)**	(1,632)

The tax credit of £1,459k (2016: £232k) shown within "non-underlying items" on the face of the consolidated income statement, which forms part of the overall tax charge of £360k (2016: £1,632k) relates to the items analysed in note 5.

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The tax rates used for the 2017 and 2016 reconciliation above are the corporate tax rates of 33.99% (Belgium), 25% (the Netherlands), 29% (Germany), 33% (France), 25% (Spain), 34% in 2017 and 24% in 2016 (Italy), 21% (Portugal) and 19% in 2017 and 20% in 2016 (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 6th September 2016). They include reductions to the main rate to reduce the rate to 17% from 1st April 2020.

A similar tax reform in Belgium was substantially enacted in December 2017. The tax rate will gradually decrease from 33.99% (current) to 29.58% in 2018 and 2019 and to 25% 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	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Goodwill	**(7)**	44	**(362)**	(264)	**(369)**	(220)
Intangible assets	**515**	175	**(6,118)**	–	**(5,603)**	175
Property, plant and equipment	**28**	13	**(25)**	3	**3**	16
Financial fixed assets	**1**	1	**–**	–	**1**	1
Inventory	**51**	43	**(24)**	–	**27**	43
Trade and other payables	**297**	565	**–**	–	**297**	565
Accruals and deferred income	**19**	173	**75**	–	**94**	173
Tax losses carried forward	**699**	255	**–**	37	**699**	292
Total	**1,603**	1,269	**(6,454)**	(224)	**(4,851)**	1,045

(b) Movements during the year

Movement of deferred taxes during 2017:

£'000	Balance at 31st December 2016 £'000	Recognised in income £'000	Acquired through business combinations £'000	Foreign exchange adjustments £'000	**Balance at 31st December 2017 £'000**
Goodwill	(220)	(138)	–	(11)	**(369)**
Intangible assets	175	565	(6,356)	13	**(5,603)**
Property, plant and equipment	13	27	(38)	1	**3**
Financial fixed assets	1	–	–	–	**1**
Inventory	46	53	(76)	3	**26**
Trade and other payables	565	(285)	–	18	**298**
Accruals and deferred income	173	(331)	247	5	**94**
Tax losses carried forward	292	392	–	15	**699**
Gross profit	1,045	283	(6,223)	44	**(4,851)**

Movement of deferred taxes during 2016:

£'000	Balance at 31st December 2015 £'000	Recognised in income £'000	Acquired through business combinations £'000	Foreign exchange adjustments £'000	Balance at 31st December 2016 £'000
Goodwill	(7)	(205)	–	(8)	(220)
Intangible assets	194	(44)	–	25	175
Property, plant and equipment	2	11	–	–	13
Financial fixed assets	1	–	–	–	1
Inventory	26	15	–	5	46
Trade and other payables	759	(304)	–	110	565
Accruals and deferred income	103	51	–	19	173
Derivatives	6	(6)	–	–	–
Borrowings	23	(26)	–	3	–
Tax losses carried forward	89	181	–	22	292
Gross profit	1,196	(327)	–	176	1,045

(c) Tax losses

The Group has unused tax losses, tax credits and notional interest deduction available in an amount of £2,636k for 2017 (2016: £1,045k).

Deferred tax assets have been recognised on all available tax losses carried forward, resulting in amounts recognised of £699k (2016: £292k). 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

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent Company by the weighted average number of ordinary shares outstanding during the year.

The weighted average number of ordinary shares outstanding during 2016 has been calculated by multiplying the existing Ecuphar NV ordinary shares of 13,957,720 by the merger ratio of 63:37 Ecuphar/Animalcare (after taking into account dilution from the exercise of certain Animalcare share incentive arrangements) giving a total adjusted weighted average of 23,765,858 shares.

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.

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The following income and share data was used in the earnings per share computations:

	Underlying 2017 £'000	Underlying 2016 £'000	Total 2017 £'000	Total 2016 £'000
Net profit attributable to ordinary equity holders of the parent adjusted for the effect of dilution	5,284	3,965	184	3,515

	2017 Number	2016 Number	2017 Number	2016 Number
Weighted average number of ordinary shares for basic earnings per share	41,998,692	23,765,848	41,998,692	23,765,858
Dilutive potential ordinary shares	178,191	–	178,191	–
Weighted average number of ordinary shares adjusted for effect of dilution	42,176,883	23,765,848	42,176,883	23,765,858

Earnings per share are as follows:

	2017 Pence	2016 Pence	2017 Pence	2016 Pence
Earnings per share attributable to ordinary owners of the parent				
Basic	12.6p	16.7p	0.4p	14.8p
Diluted	12.5p	16.7p	0.4p	14.8p

9 Goodwill

Goodwill has been allocated to the cash-generating units ("CGU") as follows:

	2017 £'000	2016 £'000
CGU: Pharmaceuticals	50,856	9,425
CGU: Wholesale	557	534
Total	51,413	9,959

The changes in the carrying value of the goodwill can be presented as follows for the years 2017 and 2016:

	Gross £'000	Impairment £'000	Total £'000
At 1st January 2016	8,974	–	8,974
Disposals	(419)	–	(419)
Currency translation	1,403	–	1,403
At 31st December 2016	9,958	–	9,958
Additions	41,048	–	41,048
Currency translation	406	–	406
At 31st December 2017	51,413	–	51,413

In addition to currency translation effects, the goodwill balance increased as a result of the reverse acquisition of the Animalcare business in 2017 by £41,048k and decreased as a result of the disposal of Nutriscience Ltd in 2016 by £419k (see note 4).

As of 31st December 2017, goodwill allocated to the Pharmaceuticals CGU includes goodwill recognised as a result of past business combinations of Esteve, Equipharma NV, Ecuphar BV, Cardon Chemicals NV and the reverse acquisition of Animalcare Group plc in 2017. As of 31st December 2017, goodwill allocated to the Wholesale CGU includes goodwill recognised as a result of the past business combinations of Medini NV and Orthopaedics NV.

The Group has performed an impairment test based on a discounted cash flow model including cash flows derived from the three-year budget plan and residual value as of the fourth year.

Both the Pharmaceuticals and Wholesale CGUs are included in their respective reportable segment Pharmaceuticals and Wholesale.

CGU Pharmaceuticals

The recoverable amount of this cash-generating unit is based on the Fair Value Less Costs of Disposal "FVLCD" which uses a multiples model.

For the calculation of the FVLCD we used both the sales and EBITDA multiples. The multiples used in the model are based on the most conservative multiples used by Rothschild for the purpose of valuing both Ecuphar and Animalcare at the time of the acquisition. The sales multiples for 2018 of the old Animalcare and Ecuphar businesses are respectively 3.5 and 1.6. The EBITDA multiples used are 13.8 for Animalcare and 10.9 for Ecuphar. From 2019 onwards, the multiples are determined for the combined businesses. The sales multiple is 1.9 and the EBITDA multiple is 11.5. EBITDA and sales are based on the 2018 and 2019 budget provided by management.

Based on the sales multiple model, the value of the Pharmaceuticals segment is determined at £179,479k, leaving a headroom of £65,882k. The value of the Pharmaceuticals segment is determined at £153,489k when using the EBITDA multiples approach. This leaves a headroom of £39,893k.

CGU Wholesale

The recoverable amount of this cash-generating unit is based on the Fair Value Less Costs of Disposal "FVLCD" which uses a multiples model.

For the calculation of the FVLCD we used both the sales and EBITDA multiples. The multiples used in the model are based on the most conservative multiples used by Rothschild for the purpose of valuing both Ecuphar and Animalcare at the time of the acquisition. The sales multiples for 2018 of the old Animalcare and Ecuphar businesses are respectively 3.5 and 1.6. The EBITDA multiples used are 13.8 for Animalcare and 10.9 for Ecuphar. From 2019 onwards, the multiples are determined for the combined businesses. The sales multiple is 1.9 and the EBITDA multiple is 11.5. EBITDA and sales are based on the 2018 and 2019 budget provided by management.

Based on the sales multiple model, the value of the Wholesale segment is determined at £53,061k, leaving a headroom of £51,106k. The value of the Wholesale segment is determined on £5,602k when using the EBITDA multiples approach. This leaves a headroom of £3,647k.

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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 2017 and 2016:

	In-process R&D £'000	Patents, distribution rights and licences £'000	Product portfolios and product development costs £'000	Capitalised software £'000	Total £'000
Acquisition value					
At 1st January 2016	2,451	11,065	13,735	–	27,251
Additions	–	1,735	1,036	–	2,771
Disposals	–	(2,090)	–	–	(2,090)
Transfers	–	–	–	179	179
Currency translation	388	1,736	2,219	8	4,351
Other	–	(9)	(34)	–	(43)
At 31st December 2016	2,839	12,437	16,956	187	32,419
Additions	550	187	1,174	468	2,379
Change due to business combinations	10,013	4,561	21,041	–	35,615
Disposals	–	(29)	–	–	(29)
Currency translation	116	510	704	14	1,344
Other	–	19	–	48	67
At 31st December 2017	**13,518**	**17,685**	**39,875**	**717**	**71,795**
Amortisation					
At 1st January 2016	(160)	(1,820)	(5,856)	–	(7,836)
Additions	(268)	(2,256)	(1,457)	–	(3,981)
Disposals	–	2,016	7	–	2,023
Transfers	–	–	(1)	(55)	(56)
Currency translation	(39)	(299)	(991)	(2)	(1,331)
Other	–	8	–	–	8
At 31st December 2016	(467)	(2,351)	(8,298)	(57)	(11,173)
Additions	(751)	(2,523)	(2,589)	(190)	(6,053)
Currency translation	(23)	(124)	(359)	(5)	(511)
Other	–	8	5	(34)	(21)
At 31st December 2017	**(1,241)**	**(4,990)**	**(11,241)**	**(286)**	**(17,758)**
Net carrying value					
At 31st December 2017	**12,277**	**12,695**	**28,634**	**431**	**54,037**
At 31st December 2016	2,372	10,086	8,658	130	21,246

In-process Research & Development relates to acquired development projects as part of the Esteve business combination in 2015, the reverse acquisition of Animalcare Group plc in 2017 and external and internal 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 2017.

Product portfolios and product development costs relate to amounts paid for acquired brands as well as external and internal product development costs capitalised on the development projects in the pipeline for which the capitalisation criteria are met.

The total amortisation charge for 2017 is £6,053k (2016: £3,981k) 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.

11 Property, Plant and Equipment

The changes in the carrying value of the property, plant and equipment can be presented as follows for the years 2017 and 2016:

	Equipment £'000	Office furniture and equipment £'000	Finance leases £'000	Leasehold improvements £'000	Total £'000
Acquisition value					
At 1st January 2016	428	1,014	52	370	1,864
Additions	25	391	–	47	463
Change due to business combinations	(196)	(59)	–	(164)	(419)
Disposals	–	(23)	–	–	(23)
Transfers	–	(174)	–	–	(174)
Currency translation	60	166	8	53	287
At 31st December 2016	317	1,315	60	306	1,998
Additions	25	134	–	25	184
Change due to business combinations	383	195	–	184	762
Disposals	(1)	(9)	–	–	(10)
Currency translation	15	55	2	13	85
At 31st December 2017	**739**	**1,690**	**62**	**528**	**3,019**
Depreciation					
At 1st January 2016	(303)	(632)	(10)	(257)	(1,202)
Depreciation charge for the year	(37)	(234)	(11)	(44)	(326)
Disposals	–	17	–	–	17
Transfers	–	52	–	–	52
Change due to business combinations	149	57	–	160	366
Currency translation	(43)	(105)	(2)	(36)	(186)
At 31st December 2016	(234)	(845)	(23)	(177)	(1,279)
Depreciation charge for the year	(50)	(215)	(12)	(50)	(327)
Disposals	–	3	–	–	3
Change due to business combinations	(274)	(169)	–	(93)	(536)
Currency translation	(9)	(37)	(1)	(8)	(55)
At 31st December 2017	**(567)**	**(1,263)**	**(36)**	**(328)**	**(2,194)**
Net book value					
At 31st December 2017	**172**	**427**	**26**	**200**	**825**
At 31st December 2016	83	470	37	129	719

The investment in property, plant and equipment in 2017 amounted to £184k (2016: £463k) and mainly related to the acquisitions of IT and office equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

YEAR ENDED 31ST DECEMBER 2017

The Group realised a net result on disposals of property, plant and equipment of £nil in 2017 (2016: £nil).

No impairment of property, plant and equipment was recorded.

Finance leases

The carrying value of assets held under finance leases at 31st December 2017 was £26k (2016: £37k). Finance leases mainly relate to leased trucks.

Borrowing costs

No borrowing costs were capitalised during the year ended 31st December 2017 or 31 December 2016.

12 Inventories

Inventories include the following:

	2017 £'000	2016 £'000
Raw materials	1,062	966
Goods purchased for resale	15,733	12,288
Total inventories (at cost or net realisable value)	16,795	13,254

The amount of inventory recognised as an expense during 2017 amounts to £48,156k (2016: £38,918k). Inventory write-downs during 2017 amounted to £680k (2016: £523k).

13 Trade Receivables and Other Current Assets

Trade receivables include the following:

	2017 £'000	2016 £'000
Trade receivables	16,811	10,904
Allowance on trade receivables	(131)	(123)
Total	16,680	10,781

Trade receivables are non-interest-bearing and are generally on payment terms of between 30 to 90 days.

As at 31st December 2017, trade receivables of an initial value of £131k (2016: £123k) were impaired and fully provided for. The table below shows the changes in the allowance of receivables.

	£'000
At 1st January 2016	(23)
Additional impairments	(102)
Change due to business combinations	9
Exchange difference	(8)
Other movement	1
At 31st December 2016	(123)
Additional impairments	(84)
Change due to business combinations	(14)
Reversal impairment	26
Exchange difference	(5)
Other movement	69
At 31st December 2017	(131)

Other current assets include the following:

	2017 £'000	2016 £'000
Other receivables	1,118	956
Deferred charges	816	235
Total	1,934	1,191

Other current assets amount to £1,934k (2016: £1,191k) at the end of the reporting period. Deferred charges mainly include prepayments totalling £562k (2016: £nil).

14 Cash and Cash Equivalents

Cash and cash equivalents include the following:

	2017 £'000	2016 £'000
Cash at bank	7,577	945
Cash equivalents	2	6
Total	7,579	951

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 2017 and 2016.

15 Trade Payables

	2017 £'000	2016 £'000
Trade payables	14,128	10,012
Total	14,128	10,012

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

16 Borrowings

The loans and borrowings include the following:

	Interest rate	Maturity	2017 £'000	2016 £'000
Other loans	1.56%		51	75
Revolving credit facilities	EURIBOR +1.50%	March 22	26,768	21,482
Roll over investment facility	EURIBOR +1.50%	March 22	2,676	3,176
Acquisition loan	EURIBOR +1.75%	March 22	3,992	–
Total loans and borrowings			33,487	24,733
of which: non-current			32,854	24,102
current			633	631

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 new agreements consist of:

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

The loans have a variable, EURIBOR based interest rate, increased with a margin of 1.5% 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:

	2017 £'000	2016 £'000
Provisions for redundancy	**–**	20
Provisions for risks and charges	**72**	196
Total	**72**	216

Provisions for risks and charges amount to £72k in December 2017 (2016: £196k) and relate to various obligations which are not individually significant.

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 31st December 2017 and 2016. As a result no further disclosures have been provided.

18 Deferred Income and Accrued Charges

Deferred income and accrued charges consists of the following:

	2017 £'000	2016 £'000
Accrued charges	**1,868**	806
Deferred income – due within one year	**219**	–
Other	**29**	6
Total due within one year	**2,116**	812
Deferred income – due after one year	**780**	–

Accrued charges mainly relate to accrued product development expenses of £757k, accrued management bonuses in Ecuphar NV of £93k (2016: £350k) and several accrued charges relating to commissions and bonuses in Ecuphar Veterinaria for an amount of £333k (2016: £318k).

Deferred income arises 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:

	£'000
Balance at the beginning of the year	–
Acquired through business combinations	925
Income deferred to following periods	181
Release of income deferred from previous periods	(107)
Balance at the end of the year	999

The deferred income liabilities fall due as follows:

	£'000
Within one year	219
After one year	780
Balance at the end of the year	999

19 Other Current Liabilities

Other current liabilities include the following:

	2017 £'000	2016 £'000
Payroll-related liabilities	**1052**	572
Other current liabilities	**928**	1,665
Total	**1,980**	2,237

Other current liabilities mainly relate to outstanding payables at the year-end for expected contractual pay-outs under a licence agreement for £763k as at 31st December 2017 (2016: £1,665k).

20 Fair Value

Financial assets

The carrying value and fair value of the financial assets for 31st December 2017 and 2016 are presented as follows:

	Carrying value		Fair value	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Financial assets measured at fair value				
Assets available for sale at FV through OCI	**464**	423	**464**	423
Loans and receivables measured at amortised cost				
Trade and other receivables (current)	**17,798**	11,737	**17,798**	11,737
Other financial assets (non-current)	**72**	69	**72**	69
Other current assets	**1,934**	1,191	**1,934**	1,191
Cash and cash equivalents	**7,579**	951	**7,579**	951
Total loans and other receivables	**27,383**	13,948	**27,383**	13,948

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 is 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 31st December 2017 and 2016 except for an investment in a company through publicly listed shares. The fair value of this investment is determined based on Level 1 inputs.
- 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 31st December 2017 and 2016.

Financial liabilities

The carrying value and fair value of the financial liabilities for 31st December 2017 and 2016 are presented as follows:

	Carrying value		Fair value	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Financial liabilities measured at amortised cost				
Borrowings	**33,487**	24,733	**33,487**	24,733
Trade payables	**14,128**	10,012	**14,128**	10,012
Other liabilities	**6,837**	4,822	**6,837**	4,822
Total financial liabilities measured at amortised cost	**54,452**	39,567	**54,452**	39,567
Financial liabilities measured at fair value				
Derivative financial instruments at FV through PL	**–**	–	**–**	–
Total financial liabilities measured at fair value	**–**	–	**–**	–
Total non-current	**32,854**	24,102	**32,854**	24,102
Total current	**21,598**	15,465	**21,598**	15,465

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 Group has no financial instruments carried at fair value in the statement of financial position on 31st December 2017 and 2016 except for an investment in a company through publicly listed shares. The fair value of this investment is a Level 1 fair value.

21 Equity

Share capital

	2017 Number of shares	2016 Number of shares
Allotted, called up and fully paid Ordinary Shares of 20p each	**59,913,900**	21,222,110

	2017 £'000	2016 £'000
Allotted, called up and fully paid Ordinary Shares of 20p each	**11,983**	4,244

The following share transactions have taken place during the year ended 31st December 2017:

	2017 Number of shares	2016 £'000
At 1st July 2016	**21,222,110**	4,244
Issued as consideration for business combinations	**37,322,894**	7,465
Exercise of share options	**1,368,896**	274
At 31st December 2017	**59,913,900**	11,983

On 13th July 2017, the Group announced that it had completed the reverse acquisition. In aggregate, 37,322,894 new Ordinary Shares were allotted and issued, comprising 8,571,428 new placing shares and 28,751,466 consideration shares.

During the year a total of 1,368,896 shares were issued in respect of the exercise of share options. This comprised a total of 1,218,896 shares issued to certain Directors as described in note 7.7, with the balance of 150,000 shares issued in relation to the grant of options over the Company's share by Animalcare Ltd under the Animalcare Group plc Executive Share Option Scheme and the Save As You Earn (SAYE) Share Option Scheme referred to in note 25.

Dividends

The Group paid an ordinary interim dividend of 4.7p per share, totalling £2,816k, on 24th November 2017. During the year ended 31st December 2016, the Group paid a final dividend of £1,469k.

The proposed final dividend of 2.0 pence per share is subject to approval of shareholders at the Annual General Meeting and has not been included as a liability as at 31st December 2017, in accordance with IAS 10 "Events After the Balance Sheet Date".

Non-controlling interest

The non-controlling interest is £2k at 31st December 2017 (2016: £2k). This non-controlling interest represents 0.2% of the share capital of Medini NV and 0.02% of Orthopaedics.be NV which are held by third parties.

22 Commitments and Contingent Liabilities

Operating lease commitments

The Group has operating lease commitments mainly related to buildings as follows:

	2017 £'000	2016 £'000
Within one year	**767**	510
Between two and three years	**1,467**	884
Between four and five years	**576**	678
More than five years	**492**	687
Total	**3,302**	2,759

The total operating lease payments recognised in the consolidated income statement in 2017 are £1,899k (2016: £1,365k).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

YEAR ENDED 31ST DECEMBER 2017

Finance lease commitments

The Group has finance leases for building and various other items of plant and equipment. Future minimum lease payments under finance leases with the present value of the net minimum lease payments are, as follows:

	31st December 2017		31st December 2016	
	Minimum lease payments £'000	Present value of payments £'000	Minimum lease payments £'000	Present value of payments £'000
Within one year	27	28	25	26
Between two and three years	23	24	40	41
Between four and five years	–	–	8	8
More than five years	–	–	–	–
Total	50	52	73	75
Less finance charges	2	–	2	–
Present value of minimum lease payments	52	52	75	75

23 Risks

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

Credit risk

As at 31st December 2017, the Group's maximum exposure to credit risk is £16,680k, which is the amount of the trade receivables in the consolidated accounts (2016: £10,781k).

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 2017	16,680	11,994	3,241	516	418	196	315
31st December 2016	10,781	9,966	710	25	44	10	26

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 31st December 2017, the Group had the following sources of liquidity available:

- Cash and cash equivalents: £7,579k
- Undrawn credit facilities with several banks: £10,052k
- Undrawn acquisition financing: £4,880k

The table below provides an analysis of the maturity dates of the financial liabilities:

	< 1 year £'000	1 – 3 years £'000	4–5 years £'000	> 5 years £'000	Total £'000
At 31st December 2017					
Borrowings	**(633)**	**(1,307)**	**(31,547)**	**–**	**(33,487)**
Trade payables	**(14,128)**	**–**	**–**	**–**	**(14,128)**
Other current liabilities	**(1,980)**	**–**	**–**	**–**	**(1,980)**
Total	**(16,741)**	**(1,307)**	**(31,547)**	**–**	**(49,595)**

	< 1 year £'000	1 – 3 years £'000	4–5 years £'000	> 5 years £'000	Total £'000
At 31st December 2016					
Borrowings	(631)	(1,259)	(1,210)	(21,633)	(24,733)
Trade payables	(10,012)	–	–	–	(10,012)
Other current liabilities	(2,237)	–	–	–	(2,237)
Total	(12,880)	(1,259)	(1,210)	(21,633)	(36,982)

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:

	Assets 2017 £'000	Assets 2016 £'000	**Liabilities 2017 £'000**	Liabilities 2016 £'000
EUR/GBP	**670**	68	**658**	13
EUR/USD	**–**	–	**155**	72
GBP/USD	**205**	–	**87**	–

The cumulative effect of the foreign currency translation effects is reported under other comprehensive income in the statement of financial position and amounts to £3,183k (2016: £2,003k).

At the end of the reporting period, the Group is mainly exposed to the EUR and the USD. The following table details the effect of a 10% increase and decrease in the exchange rate of these currencies against sterling when applied to outstanding monetary items denominated in foreign currency as at 31st December 2017. A positive number indicates that an increase in profit would arise from a 10% change in value of sterling against these currencies, and a negative number indicates that a decrease would arise.

	Strengthening £'000	Weakening £'000
EUR	9	(11)
USD	3	(4)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

YEAR ENDED 31ST DECEMBER 2017

Interest rate risk

The maturity dates and interest rates of the financial debts and liabilities are detailed in note 12. 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 12 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 £330k lower/higher in 2017 and £ 287k lower/higher in 2016.

Forward foreign exchange contracts

The Group had two (2016: none) open foreign exchange contracts at the end of the year. The values are shown below:

	2017 £'000	2016 £'000
Principal value	**–**	–
Fair value	**4**	–

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 maximize 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 £89,644k as at 31st December 2017 (2016: £19,853k).

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 31st December 2017 and 2016.

24 Remuneration paid to the Company's Auditors

	2017 £'000	2016 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**19**	18
The audit of the Company's subsidiaries pursuant to legislation	**99**	35
Total audit fees	**118**	53
Tax services	**16**	31
Other services	**144**	68
Total non-audit fees	**160**	99
Total auditors' remuneration	**278**	152

25 Share-based Payments

During the year the Company operated two share option schemes and one Long Term Incentive Plan 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		Unapproved	
	Options £	Price £	Options £	Price £	Options £	Price £
Share options acquired during the year	460,000	1.578	199,864	1.567	180,000	1.408
Lapsed during the year	(47,500)	1.860	–	–	–	–
Exercised during the period	(270,000)	1.408	–	–	(180,000)	1.408
Open at 31st December 2017	**142,500**	**1.916**	**199,864**	**1.567**	**–**	**–**
Exercisable at the end of the year	**57,500**	**1.555**	**–**	**–**	**–**	**–**

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

	EMI Scheme	SAYE Scheme	Unapproved Scheme
Weighted average share price	152p	195p	141p
Weighted average exercise price	152p	157p	141p
Expected volatility	53%	42%	56%
Expected life	3.1 years	3.1 years	3.0 years
Risk-free rate	**0.5%**	**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.

The Company recognised a total charge in respect of share-based payments of £27k (2016: £nil).

Long Term Incentive Plan (LTIP)

Information relating to the LTIP, which was exercised during the year, is set out in note 7.7.

The charge for the year to the income statement in respect of the LTIP is £nil (2016: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 accounts 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 36 and in note 37.

Transactions with shareholders accounted for a total amount of £nil in 2017 (2016: £60k). These amounts were recognised as an expense during the reporting period.

27 Overview of Consolidated Entities

Name	Country of incorporation	Registered address	% equity interest 2017 £'000	% equity interest 2016 £'000
Ecuphar NV	Belgium	Legeweg 157i, 8020 Oostkamp	**100%**	100%
Medini NV	Belgium	Legeweg 157i, 8020 Oostkamp	**99.8%**	99.8%
Orthopaedics.be NV	Belgium	Legeweg 157i, 8020 Oostkamp	**99.98%**	99.98%
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%
Ecuph Italia	Italy	Viale Francesco Restelli, 3/7, piano 1, 20124 Milan	**100%**	100%
Belphar	Portugal	R. Carlos Alberto da Mota Pinto, Nº 17- 3ºA, 1070-313 Lisbon	**100%**	100%
Animalcare Ltd	United Kingdom	Unit 7, 10 Great North Way, York Business Park, Nether Poppleton, York, YO26 6RB	**100%**	0%

COMPANY BALANCE SHEETS
PERIOD ENDED 31ST DECEMBER 2017

	Notes	As at 31 Dec 2017 £'000	As at 30 June 2016 £'000
Non-current assets			
Other intangible assets	6	–	4
Investments in subsidiary companies	7	147,743	14,361
Deferred tax asset	11	12	105
		147,755	14,470
Current assets			
Trade and other receivables	8	635	332
Cash and cash equivalents	9	2,109	1,576
		2,744	1,908
Total assets		150,499	16,378
Current liabilities			
Trade and other payables	10	(3,684)	(5,217)
		(3,684)	(5,217)
Net current assets/(liabilities)		(940)	(3,309)
Total liabilities		(3,684)	(5,217)
Net assets		146,815	11,161
Capital and reserves			
Called up share capital	12	11,983	4,212
Share premium account	12	132,588	6,506
Retained earnings		2,244	443
Equity attributable to equity holders of the parent		146,815	11,161

Included within retained earnings is profit after tax of £6,028,000 (2016: loss £399,000).

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

PERIOD ENDED 31ST DECEMBER 2017

	Notes	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
Balance at 30th June 2015		4,204	6,461	2,078	12,743
Total comprehensive loss for the year		–	–	(399)	(399)
Transactions with owners of the Company, recognised in equity:					
Dividends paid		–	–	(1,283)	(1,283)
Issue of share capital		8	45	–	53
Share-based payments		–	–	47	47
Balance at 1st July 2016		4,212	6,506	443	11,161
Total comprehensive profit for the period	3	–	–	6,028	6,028
Transactions with owners of the Company, recognised in equity:					
Dividends paid	5	–	–	(4,237)	(4,237)
Issue of share capital net costs of issue	12	1,714	27,068	–	28,782
Consideration shares	12	5,750	94,880	–	100,630
Exercise of share options	12	307	4,134	–	4,441
Share-based payments	13	–	–	10	10
Balance at 31st December 2017		**11,983**	**132,588**	**2,244**	**146,815**

COMPANY CASH FLOW STATEMENTS

PERIOD ENDED 31ST DECEMBER 2017

	Note	18 month period to 31st Dec 2017 £'000	12 month period to 30th June 2016 £'000
Comprehensive income/(loss) for the year before tax		**5,608**	(507)
Adjustments for:			
Amortisation of intangible assets	3	**4**	2
Finance income		**(4)**	(11)
Share-based payment expense	13	**10**	47
Operating cash flows before movements in working capital		**5,618**	(469)
Decrease/(increase) in receivables	8	**(8)**	(3)
(Decrease)/increase in payables	10	**(1,315)**	1,691
Cash generated by operations		**4,295**	1,219
Income taxes (paid)/received		**–**	–
Net cash flow from operating activities		**4,295**	1,219
Investing activities:			
Payments to acquire subsidiaries	7	**(33,145)**	–
Disposal of subsidiaries	7	**4,000**	–
Interest received		**4**	11
Net cash (used in)/generated by investing activities		**(29,141)**	11
Financing:			
Receipts from issue of share capital	12	**29,616**	53
Equity dividends paid	5	**(4,237)**	(1,283)
Net cash used in financing activities		**25,379**	(1,230)
Net increase/(decrease) in cash and cash equivalents		**533**	–
Cash and cash equivalents at start of year		**1,576**	1,576
Cash and cash equivalents at end of year		**2,109**	1,576
Comprising:			
Cash and cash equivalents	9	**2,109**	1,576

NOTES TO THE ACCOUNTS

PERIOD ENDED 31ST DECEMBER 2017

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 18 months from 1st July 2016 to 31st December 2017.

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 accounts of the Company was £6,028,000 (2016: loss £399,000).

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 in accordance with FRC Going Concern and Liquidity Risk guidance (October 2009). It is considered appropriate to continue to prepare the financial statements on a going concern basis.

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 – 4 years

Operating leases

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

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 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 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).

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 Long Term Incentive Plan were valued on a discounted cash flow basis in conjunction with a third party valuation specialist.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

1 Significant Accounting Policies (continued)

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 on 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.

2 Exceptional and Other Items

	Notes	**2017 £'000**	2016 £'000
Professional and other fees relating to the reverse acquisition	7	**2,791**	–
Legal fees relating to Director resignation	4	**17**	–
Reorganisation and integration costs		**105**	–
Total exceptional and other items		**2,913**	–

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.

The majority of the £2,913,000 exceptional costs included in the Company's result for the period relate to the reverse acquisition of Ecuphar NV which completed on 13th July 2017 (see note 7 for further details). The transaction costs totalling £2,791,000 largely comprise professional fees including corporate finance, legal, accounting and taxation advice.

Reorganisation and integration costs totalling £105,000 relate to professional fees associated with the reorganisation of the Group structure (see note 7) and initial costs in respect of the set-up of a new Long Term Incentive Plan which is expected to be implemented during 2018.

NOTES TO THE ACCOUNTS CONTINUED

PERIOD ENDED 31ST DECEMBER 2017

3 Total Comprehensive Income/(Loss) for the Period

	2017 £'000	2016 £'000
Total comprehensive income/(loss) for the period/year has been arrived at after charging/(crediting):		
Amortisation of intangible assets	4	2
Finance income	(4)	(11)
Dividend income received from subsidiary – Animalcare Ltd	7,789	–
Dividend income received from subsidiary – Ecuphar NV	1,789	–

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

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

	2017 £'000	2016 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	19	13
Total audit fees	19	13

4 Directors' Remuneration and Interests

Emoluments

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

Period ended 31st December 2017	Salary £'000	Bonus £'000	Company pension contributions £'000	Benefits £'000	Compensation for loss of office £'000	Total £'000
W Beyers[1]	11	–	–	–	–	11
J Boone* (Appointed 13th July 2017)	35	–	–	–	–	35
C Brewster[2]	184	46	22	12	–	264
C Cardon (Appointed 13th July 2017)	16	–	–	–	–	16
M Coucke* (Appointed 13th July 2017)	19	–	–	–	–	19
Lord Downshire*	43	–	–	5	–	48
R B Harding* (Resigned 13th July 2017)	24	–	–	–	12	36
J S Lambert*	55	–	–	–	–	55
Dr I D Menneer	282	63	34	15	–	394
E Torr* (Appointed 13th July 2017)	19	–	–	–	–	19
Total	688	109	56	32	12	897

* Indicates Non-Executive Directors.

1. W Beyers was appointed 13th July 2017 and resigned 26th September 2017.
2. C Brewster resigned 12th July 2017 and then appointed 26th September 2017.

4 Directors' Remuneration and Interests (continued)

Year ended 30th June 2016	Salary £'000	Bonus £'000	Company pension contributions £'000	Benefits £'000	Total £'000
J S Lambert*	35	–	–	–	35
Lord Downshire*	23	–	–	3	26
R B Harding*	23	–	–	–	23
Dr I D Menneer	143	18	17	7	186
C J Brewster	102	17	12	6	137
Total	**326**	**35**	**29**	**16**	**406**

* Indicates Non-Executive Directors.

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

Share options

The Directors had the following beneficial options granted by the Company:

I D Menneer

Scheme	EMI	EMI	Unapproved	SAYE	Unapproved	SAYE	Total
Exercise Price	£1.30	£1.325	£1.40	£1.03	£1.415	£1.05	
Date of Grant	2nd August 2012	20th November 2012	21st February 2013	22nd May 2013	20th June 2013	28th November 2014	
Outstanding at 1st July 2016	60,000	50,000	90,000	4,377	90,000	5,142	299,519
Exercised during the period	(60,000)	(50,000)	(90,000)	(4,377)	(90,000)	–	(294,377)
Open at 31st December 2017	**–**	**–**	**–**	**–**	**–**	**5,142**	**5,142**

C J Brewster

Scheme	EMI	EMI	Unapproved	SAYE	Unapproved	SAYE	Total
Exercise Price	£1.30	£1.30	£1.03	£1.415	£1.05		
Date of Grant	22nd June 2012	2nd August 2012	22nd May 2013	20th June 2013	28th November 2014		
Outstanding at 1st July 2016	30,000	30,000	8,754	40,000	8,571	117,325	
Exercised during the period	(30,000)	(30,000)	(8,754)	(40,000)	–	(108,754)	
Open at 31st December 2017	**–**	**–**	**–**	**–**	**8,571**	**8,571**	

In connection with the reverse acquisition of Ecuphar NV, all vested options were exercised following completion on 13th July 2017.

For the Directors' interests in the shares of the Company as at 31st December 2017 please refer to the table on page 37 in the Annual Remuneration Report.

4 Directors' Remuneration and Interests (continued)

Long Term Incentive Plan (LTIP)

Under the Animalcare Group plc LTIP, which was introduced in June 2014, the Directors' interests in the LTIP, which was implemented via a subscription for growth shares in the capital of Animalcare Ltd, a subsidiary of the Company, are as follows:

- Iain Menneer – 31,955 A Ordinary Shares of £1.00 each ("A Shares") for a total cash subscription of £31,955, representing 5.2% of Animalcare Ltd's issued share capital; and
- Chris Brewster – 19,173 A Shares, representing 3% of Animalcare Ltd's issued share capital and 11,800 B Ordinary Shares of £1.00 each ("B Shares"), representing a further 2% of Animalcare Ltd's issued share capital, for a total cash subscription of £30,973.

The total cash subscriptions were, based on independent valuation, considered to be equal to fair value at the time of acquisition.

Dr Menneer and Mr Brewster had the right to sell their A Shares to the Company at any time after 27th June 2017 in exchange for Ordinary Shares of 20 pence each in the Company ("Ordinary Shares"). Their rights to sell the A Shares are subject to, amongst other provisions, the Company having a market capitalisation in excess of £39.0m ("the Hurdle") at the time of sale. The Hurdle was determined by Animalcare's Remuneration Committee and broadly represented a 20% premium to the Company's market capitalisation on 27th June 2014. Each holder of A Shares would, on a sale of his entire holding to the Company, be entitled to receive Ordinary Shares representing a percentage of the increase in the Company's market capitalisation above the Hurdle; being 5% for Dr Menneer and 3% for Mr Brewster. The A Shares do not have a right to receive a dividend, except for any amounts distributed on the winding up of the Company or on an asset sale.

The B Shares are not entitled to participate in any increase in the value of the Company above the Hurdle but can be exchanged for Ordinary Shares of an equal value at any time after 27th June 2017. The B Shares have a right to an annual dividend (on a non-fixed coupon basis), calculated by applying a rate of LIBOR + 2% to the nominal value of the B Shares.

Further details of the Plan, including the Hurdle, anti-dilution and other provisions, are set out in Animalcare Ltd's articles of association, which is available within the Investors section (constitutional documents) of the Company's website at http://www.animalcaregroup.co.uk.

It was agreed between the Company, Dr Menneer and Mr Brewster, that the put options did not become exercisable as a result of the reverse acquisition of Ecuphar NV. The Company, however, determined that it was appropriate to offer the right to exchange their shares in Animalcare Limited for Ordinary Shares shortly before completion of the reverse acquisition, and each took up that right. As a consequence, 918,896 new Ordinary Shares were issued to Dr Menneer and Mr Brewster. The number of new Ordinary Shares issued pursuant to the exercise of these rights was determined using the lower of the closing middle market price for an Ordinary Share on 22 June 2017, being the dealing day before the date the offer to exchange was made and the average of the closing middle market prices for an Ordinary Share over the dealing days in the 30 day period before that date, being 392.5 pence.

5 Dividends

	2017 £'000	2016 £'000
Ordinary final dividend paid for the year ended 30th June 2015 of 4.3p per share	–	904
Ordinary interim dividend paid for the year ended 30th June 2016 of 1.8p per share	–	379
Ordinary final dividend paid for the year ended 30th June 2016 of 4.7p per share	997	–
Ordinary interim dividend paid for the year ended 30th June 2017 of 2.0p per share	425	–
Second ordinary interim dividend for the year ended 30th June 2017 of 4.7p per share	2,815	
	4,237	1,283

The proposed final dividend of [2.0] pence per share is subject to approval of shareholders at the Annual General Meeting and has not been included as a liability as at 31st December 2017, in accordance with IAS 10 "Events After the Balance Sheet Date".

6 Other Intangible Assets

	Capitalised software £'000	Total £'000
Cost		
At 1st July 2016 and 31st December 2017	**7**	**7**
Amortisation		
At 1st July 2015	1	1
Charge for the year	2	2
At 30th June 2016	3	3
Charge for the period	4	4
At 31st December 2017	**7**	**7**
Carrying value		
At 31st December 2017	**–**	**–**
At 30th June 2016	4	4

7 Investments in Subsidiaries

Subsidiary undertakings

	2017 £'000
Cost	
At 1st July 2015 and 1st July 2016	**14,361**
Acquisition of Ecuphar NV	**133,775**
Investment in Animalcare Ltd following exercise of LTIP	**3,607**
Transfer of Animalcare Ltd to Ecuphar NV	**(4,000)**
At 31st December 2017	**147,743**

Details in respect of the reverse acquisition of Ecuphar NV, which was completed on 13th July 2017, are shown in note 4 to the Consolidated Financial Statements.

On 13th July 2017, following exercise of the LTIP as detailed in note 4, the Company acquired the remaining 10% of Animalcare Ltd that it did not own for a consideration of £3,607,000. This was satisfied by the issue of 918,896 new Ordinary Shares at a price of 392.5 pence per share.

On 19th July 2017, Animalcare Ltd was transferred to Ecuphar NV as part of a post-completion restructuring of the Group. The consideration was £4,000,000 in cash. This intra-group transaction was accounted for at book value hence the £4,000,000 cash consideration was deducted from the overall investment carrying value so to result in a £nil effect on net assets.

7 Investments in Subsidiaries (continued)

The Company has the following interests in subsidiaries:

Name	Country of incorporation	Registered address	% equity interest 2017 £'000	% equity interest 2016 £'000
Ecuphar NV	Belgium	Legeweg 157i, 8020 Oostkamp	**100%**	–
Medini NV	Belgium	Legeweg 157i, 8020 Oostkamp	**99.8%**	–
Orthopaedics.be NV	Belgium	Legeweg 157i, 8020 Oostkamp	**99.98%**	–
Ecuphar BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	**100%**	–
Ecuphar Veterinary Products BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	**100%**	–
Ornis SA	France	Rue de Roubaix 33, 59200 Tourcoing	**100%**	–
Ecuphar GmbH	Germany	Brandteichstraße 20, 17489 Greifswald	**100%**	–
Euracon Pharma Consulting und Trading GmbH	Germany	Max-Planck Str. 11, 85716 Unterschleißheim	**100%**	–
Ecuphar Veterinaria SA	Spain	Avenida Río de Janeiro, 60 – 66, planta 13, 08016 Barcelona	**100%**	–
Ecuph Italia	Italy	Viale Francesco Restelli, 3/7, piano 1, 20124 Milan	**100%**	–
Belphar	Portugal	R. Carlos Alberto da Mota Pinto, Nº 17- 3ºA, 1070-313 Lisbon	**100%**	–
Animalcare Ltd	United Kingdom	Unit 7, 10 Great North Way, York Business Park, Nether Poppleton, York, YO26 6RB	**100%**	100%

8 Other Financial Assets

Trade and other receivables

	2017 £'000	2016 £'000
Corporation tax – Group relief	**604**	308
Other receivables	**7**	7
Prepayments and accrued income	**24**	17
	635	332

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

9 Cash and Cash Equivalents

	2017 £'000	2016 £'000
Cash and cash equivalents	**2,109**	1,576

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

10 Other Financial Liabilities

	2017 £'000	2016 £'000
Trade payables	**277**	97
Amounts payable to subsidiaries	**2,793**	4,991
Other taxes and social security costs	**295**	56
Other creditors	**27**	20
Accruals	**292**	53
	3,684	5,217

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

11 Deferred Tax

The following are the major components of the deferred tax assets recognised by the Company, and the movements thereon, during the current and prior reporting period:

	Accelerated tax depreciation £'000	Share-based payments £'000	Other £'000	Total £'000
Balance at 1st July 2015	(9)	(77)	(2)	(88)
Charge/(credit) to income	2	(19)	–	(17)
Balance at 30th June 2016	(7)	(96)	(2)	(105)
Charge to income	2	91	–	93
At 31 December 2017	**(5)**	**(5)**	**(2)**	**(12)**

Deferred tax balances have been calculated at an effective rate of 17%, being the substantively enacted rate at 31 December 2017.

12 Share Capital

	2017 No.	2016 No.
Allotted, called up and fully paid Ordinary Shares of 20p each	**59,913,900**	21,059,636

	2017 £'000	2016 £'000
Allotted, called up and fully paid Ordinary Shares of 20p each	**11,983**	4,212

The following share transactions have taken place during the period ended 31st December 2017:

	2017 No.	2016 No.
At 1st July 2016	**21,059,636**	4,212
Issued as consideration for business combinations	**37,322,894**	7,465
Exercise of share options	**1,531,370**	306
At 31st December 2017	**59,913,900**	11,983

12 Share Capital (continued)

On 13th July 2017 the Company announced that it completed the reverse acquisition of Ecuphar NV. In aggregate, 37,322,894 new Ordinary Shares were allotted and issued comprising 8,571,428 new placing shares and 28,751,466 consideration shares.

During the period a total of 1,531,370 shares were issued in respect of the exercise of share options. This comprised a total of 1,322,027 shares issued to certain Directors as described in note 4, with the balance of 209,333 shares issued in relation to the grant of options over the Company's share by Animalcare Ltd under the Animalcare Group plc Executive Share Option Scheme and the Save As You Earn (SAYE) Share Option Scheme referred to in note 13.

13 Share-based Payments

During the year the Company operated two share option schemes and one Long Term Incentive Plan 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 period are as follows:

	EMI		SAYE		Unapproved	
	Options	Price £	Options	Price £	Options	Price £
Outstanding at 1st July 2016	550,000	1.578	192,462	1.041	180,000	1.408
Granted during the period	–	–	87,531	2.280	–	–
Lapsed during the year	(47,500)	1.860	(7,835)	1.607	–	–
Exercised during the period	(360,000)	1.408	(72,474)	1.028	(180,000)	1.408
Open at 31st December 2017	142,500	1.916	199,684	1.567	180,000	1.408
Exercisable at the end of the year	57,500	1.555	–	–	–	–

13 Share-based Payments (continued)

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

	EMI Scheme	SAYE Scheme	Unapproved Scheme
Weighted average share price	152p	195p	141p
Weighted average exercise price	152p	157p	141p
Expected volatility	53%	42%	56%
Expected life	3.1 years	3.1 years	3.0 years
Risk-free rate	0.5%	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.

The Company recognised a total charge in respect of share-based payments of £10,200 (2016: £47,000).

Long Term Incentive Plan (LTIP)

Information relating to the LTIP, which was exercised during the period, is set out in note 4.

The charge for the period to the income statement in respect of the LTIP is £nil (2016: £nil).

14 Related Party Transactions

Trading transactions

During the period ended 31st December 2017, the following trading transactions took place between the Company and its UK subsidiary, Animalcare Ltd.

2017	**Animalcare Ltd £'000**	**Total £'000**
Management charges levied	**120**	**120**

2016	Animalcare Ltd £'000	Total £'000
Management charges levied	240	240

Remuneration of key management personnel

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

SHAREHOLDERS NOTES

ADVISERS

Directors	C Cardon C J Brewster E Torr J Boone J S Lambert Lord Downshire M Coucke
Secretary	C J Brewster
Company Number	1058015
Registered Office	Unit 7, 10 Great North Way York Business Park Nether Poppleton York YO26 6RB
Auditor	PricewaterhouseCoopers LLP Central Square 29 Wellingotn Street Leeds LS1 4DL
Bankers	Barclays Bank PLC PO Box 190 1 Park Row Leeds LS1 5WU
Solicitors	Squire Pattern Boggs (UK) LLP 6 Wellington Place Leeds LS1 4AP
Nominated Advisor and Broker	Panmure Gordon & Co One New Change London EC4M 9AF
Registrars	Capita Asset Services 34 Beckenham Road Beckenham Kent BR3 4TU

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