Partnering for better animal health

ANIMALCARE
GROUP PLC

ANNUAL REPORT
for the year ended 31st December 2018

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WELCOME TO ANIMALCARE GROUP PLC

Our Purpose

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

Read about our business on **page 8**

Read more online at: **www.animalcaregroup.co.uk**

FINANCIAL HIGHLIGHTS

We have delivered revenue and underlying EBITDA growth and reduced net debt.

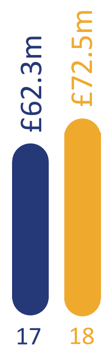
Revenue (£m)

£72.5m

Revenue up

16.3%

(+2.7% on a proforma basis)



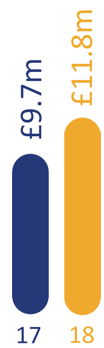
Underlying* EBITDA (£m)

£11.8m

EBITDA increased by

21.7%

(+2.8% on a proforma basis)



Underlying* Basic EPS (p)

11.7p

Underlying Basic EPS decreased by

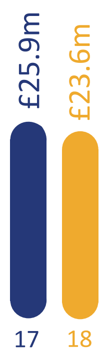
4.9%

(+8.3% on a proforma basis)

Net debt (£m)

£23.6m

Net debt reduced by £2.3m with net debt: Underlying EBITDA leverage at 2.0 times



* A reconciliation of underlying to reported results can be found on page 23

CHAIRMAN'S STATEMENT

"Animalcare has made good progress in 2018 and early 2019 as we focus on creating a competitive platform for future growth. We look forward to 2019 and beyond with confidence"

Jan Boone
Non Executive Chairman

Read about our group at a glance on **page 5**

Read about our corporate governance on **page 34**

Animalcare continued to make steady progress in 2018 as we focus on creating a competitive platform for future growth in the international animal health sector. Group revenues from continuing operations were up 16.3% to £72.5m from £62.3m with underlying EBITDA increasing by 21.7% to £11.8m (2017: £9.7m). On a proforma basis, which is used by the Board for comparison of financial performance, as set out in the unaudited income statement on page 23, revenue and underlying EBITDA growth versus 2017 was 2.7% and 2.8% respectively. After underlying adjustments totalling £9.4m, the loss before tax for the year on a reported basis was £0.4m (2017: £0.4m profit).

Sales growth was affected towards the end of the year by supply challenges related to third-party manufacturers, some of which impacted the wider market. We also experienced some delays to new product launches and lower demand in the large animal portfolio, particularly for antibiotics which was reflective of an overall market decline in demand.

Strategically, we decided to dispose of the Wholesale Division in order to focus resources on the higher-margin veterinary pharmaceuticals business. We also continued to focus on integration, supply chain efficiency and optimising portfolios and product launches across our expanded network.

The Board is confident of the long-term prospects of the animal health market and is actively preparing the business to make the most of the opportunities. Our key competitive advantages include a significant presence across Europe, with products sold in 32 markets directly and through partners. We also benefit from specialisation in key therapeutic areas for the companion animal and equine markets, and believe we can capitalise on a growing reputation as a chosen partner for non-European companies and researchers wanting to commercialise innovative products in Europe.

In order to maximise the potential of the business, the Board appointed Jenny Winter as CEO in October 2018. Jenny has an excellent track record in the pharmaceutical industry, most recently with AstraZeneca, with particular expertise in supply chain effectiveness, which we believe is fundamental to improving our overall performance. We are grateful to Chris Cardon for his contribution as CEO and for taking on the role of Chief Strategy Officer.

Jenny has initiated a full review and identified a clear path for Animalcare as a business focused around core therapy areas and higher margin products with the vet as our primary customer. We are also setting out financial goals, including growing faster than the markets in which we operate and improving cash generation to enable us to invest in future growth and innovation.

Further details of the new strategy are set out in the Chief Executive Officer's Review and are linked to our Key Performance Indicators.

I would like to thank our employees for their support and dedication during 2018. We look forward to 2019 and beyond with confidence. We believe Animalcare is excellently placed to leverage its geographic, structural and therapeutic strengths, and has the opportunity to become a significant and recognised brand across Europe, with global potential for innovative products through best-in-class partnerships.

We look forward to keeping you updated on our progress during the year.

Jan Boone
Non-Executive Chairman

WHY ANIMALCARE?

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

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

Meeting the needs of vets in pain management, surgery, dermatology, vaccines, dental care and microchipping

Late-stage pipeline from internal R&D and external collaborations

Since 2017 we have demonstrated growth ahead of the market within our Companion Animals product category.

Animalcare and key stakeholders

1 Shareholders

Animalcare is a profitable, cash-generative business building a robust platform for growth principally in the European companion animal and equine markets, with a focus on higher margin, innovative products developed through in-house R&D and acquired or in-licensed from third parties.

2 Customers

With an agile business model and close customer relationships, Animalcare seeks to provide vets across Europe with trusted, valuable and cost-effective products.

3 Partners

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

4 Employees

As an emerging player in the European animal health business, Animalcare has a strong, inclusive and dynamic culture and seeks to attract and retain people with the skills and expertise to grow our business by offering excellent career development opportunities and appropriate rewards.

OUR PRODUCTS

Our products can be divided into three categories: Companion Animals, Production Animals and Equine. We have a broad portfolio of products targeted primarily at the veterinary profession and our Top 20 brands account for 47% of total revenue which we aim to increase over the next 3 to 5 years.

1 Danilon

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

2 Orozyme

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

3 Dinalgen

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

4 Conofite

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

5 Aqupharm

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

6 Cosequin

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

7 Filavac

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

8 Leisguard

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

9 Seponver

Antiparasitic oral suspension for sheep.

10 Buprecare

An injectable product used during surgery for post-operative analgesia (pain relief) in dogs and cats.

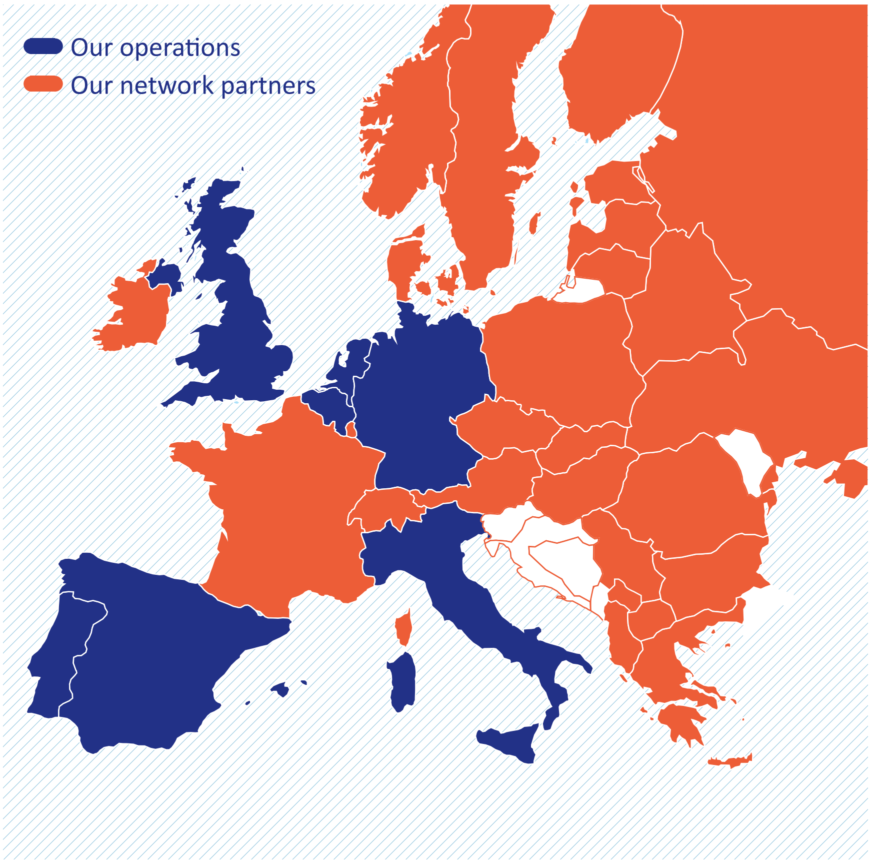
OUR GROUP AT A GLANCE

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

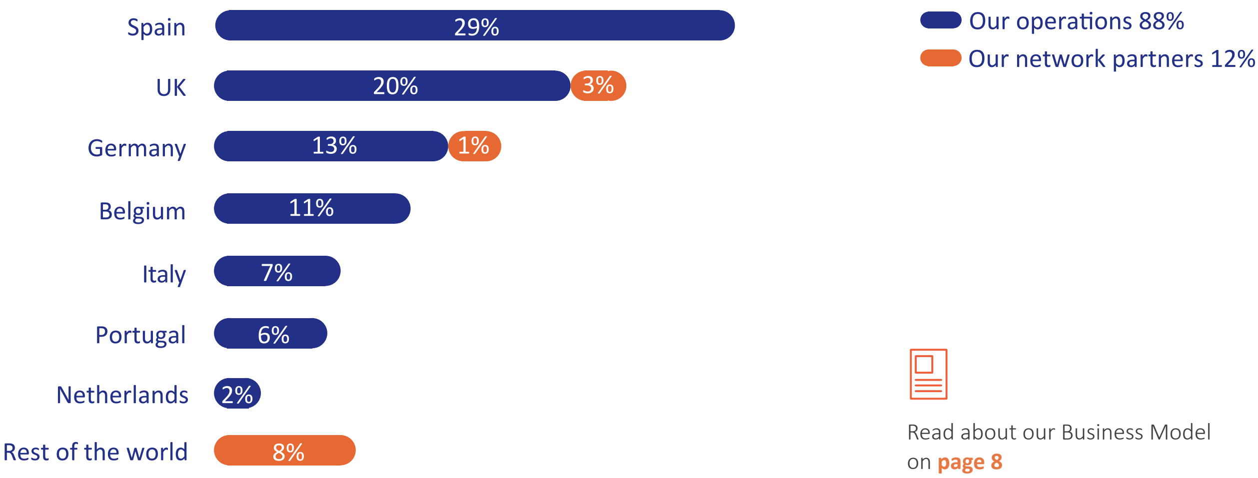
Our Companies

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

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



Revenue % by country



Read about our Business Model on page 8

OUR MARKETPLACE

Spend on companion animal medicines continues to outpace farm animals with forecast companion growth almost twice as high as farm animals until 2024.[1] Pet numbers are rising while the number of farm animals decreases further shifting the balance towards companion animals in the EU.

80 million households in the EU are estimated to own at least one pet with 26% of households owning a cat and 24% owning a dog. There are more pet cats than dogs (74.4m vs 66.4m) and the number of cats is stable while pet dogs increased 4.2% year on year[2].

Europe is the second largest animal medicines market in the world and represents around one-third of the global market. The market value of the European animal medicines industry in approx. 3% of the human health industry, with total sales estimated at just over €6bn with Companions animals accounting for 53% of spend. Including food and other related products and services, the total amount spent on pets by European households is over €38bn a year[3].

Vaccines and parasiticides dominate the market and account for 60% of sales. The market share of antimicrobials dropped 3% as governments and consumers continued pressure to cut their use and find alternative solutions[4].

Changes in landscape

The veterinary market in Europe continues to see rapid change. The corporatisation of veterinary clinics across Europe and especially the UK, Netherlands and Nordics shows no sign of slowing down and one of main veterinary groups from the USA has entered the European veterinary market with a couple of medium and large sized acquisitions. Wholesalers are changing their business models with some repositioning themselves as technology companies whilst others are introducing larger ranges of own label products and competing with their historical customer base.

Increased pet ownership and treatment of pets as "family" is leading to greater demand for preventative medicines and a focus on well-being. The growth of social media is increasing the awareness of the consumer and they are demanding better care for their pets and improved service from veterinarians. More innovative and sophisticated treatment options are becoming available to prolong and improve quality of life including complex surgical procedures and chronic therapies.

Diagnostics and Digital technology are the fast-growing sectors of the market. Recent acquisitions of diagnostics companies by multi-national pharmaceutical companies highlights the strategic importance of this sector. Digital technology is currently focused on pet wearables and livestock monitoring and is forecast to have sales of $2.36bn by 2022, growth of 180% compared to 2014[5].

The changes in legislation relating to the use of antibiotics in farm animals are creating opportunities for alternative preventative options and the use of animal vaccines has increased by 50% over the last six years[6].

1. Animalpharm Top 50 report 2018
2. FEDIAF 2017 annual report
3. Animalhealth Europe
4. Animalhealth Europe
5. Grand View Research
6. Animalhealth Europe

Market segments

1

The market for Animal Health is growing rapidly.

What this means for Animalcare:

Currently 97% of our revenue comes from Europe, either through our own infrastructure or through our network partners.

We will continue to expand our sales into higher growth markets through partners where we do not have infrastructure and build infrastructure only where the market is best served by establishing our presence.

2

Veterinary practice is changing and new stakeholders are becoming increasingly important.

What this means for Animalcare:

We will work closely with our key customer, the vet, to understand their environment and be responsive to the changes. This includes using our strong European presence to share best practice and learn.

We have in-house experts such as specialist Equine vets, and we are continuing to build capabilities that are aligned with the changing environment including Key Account Management to align with the Corporate structures.

3

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

What this means for Animalcare:

We continue to build on our heritage in the growing areas of surgery, prevention, dermatology and pain.

Our development pipeline is aligned to the future needs of the veterinarians whilst continuing to support our established businesses in Production animals.

4

Diagnostics and Digital technology are increasing.

What this means for Animalcare:

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

5

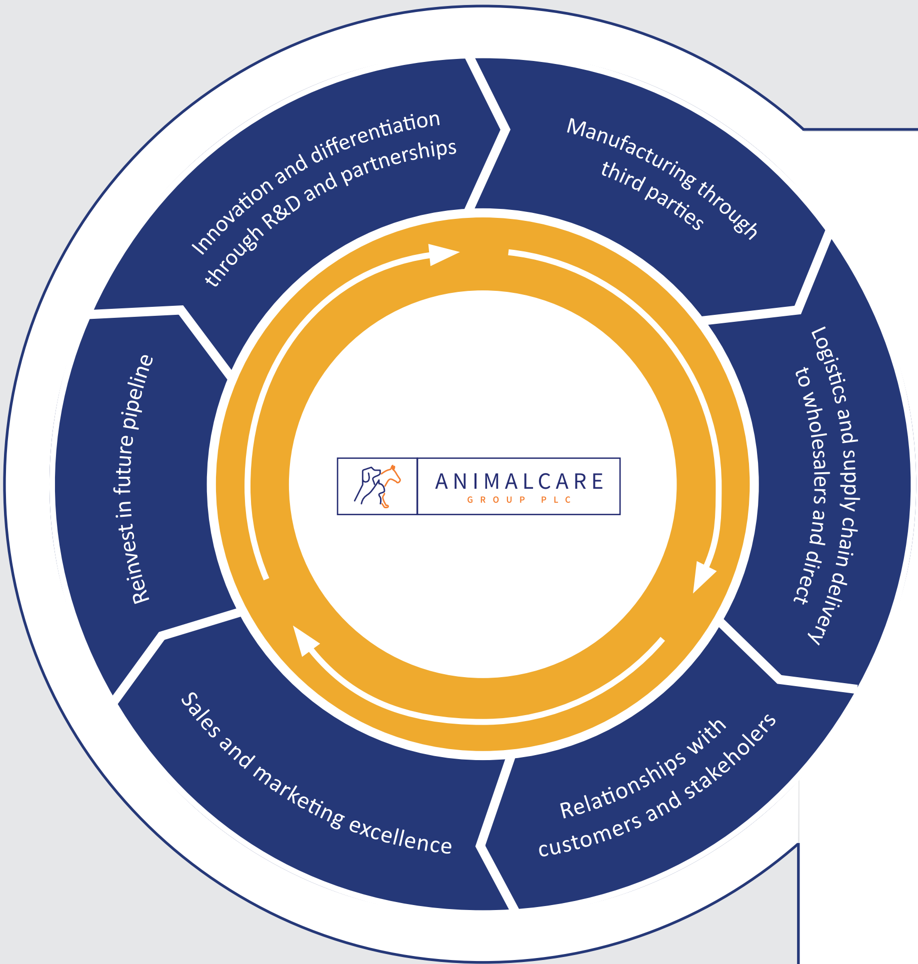
Changes in the use of antibiotics.

What this means for Animalcare:

We have reduced our focus on antibiotics.

OUR BUSINESS MODEL

We develop, supply and market a range of products and services to the veterinary profession through our own operations in seven European markets and via network partners in other territories



1

Key resources

Our most important resources are the skills, expertise and dedication of our employees in the fields of Sales & Marketing, Research & Development, Supply Chain, Regulatory and Business Development. We combine these skills with an intimate knowledge of the international and national markets in which we operate and the regulations that govern them.

We have strong knowledge of the Companion Animal, Equine and Farm Animal markets in which we operate and with the individual vets and veterinary groups that are our core customers.

We seek to improve animal health and well-being by offering a high quality and trusted portfolio of products, with particular strengths in pain management, dermatology, dental, disease prevention, surgery and microchipping.

We use our operating cash to invest in new products, extend our product offering and support commercialisation, and to reward the support of shareholders by paying a dividend.

2

Key activities

We develop and commercialise trusted pharmaceutical and OTC products that improve animal health and well-being. These products are developed in-house, acquired from other companies or in-licensed from our partners.

We source all products from third parties. We manage a complex international supply chain, including specialist veterinary wholesalers and distributors.

We are increasingly a preferred partner for non-EU companies seeking to commercialise products across Europe. We also seek to commercialise our own products in international markets through best-in-class collaborations.

We sell products to veterinary practices and veterinary groups through our own highly skilled sales forces in seven European markets: Belgium, Germany, Italy, the Netherlands, Portugal, Spain and the UK.

3

Competitive advantages

We have the skills agility and local knowledge to respond to changing markets, complemented by close relationships with individual veterinary practice and larger veterinary groups.

Our sales force has experience and knowledge of their markets and the products and the needs of their customers and many have a professional veterinary background or training.

We are increasingly focused on therapies with high unmet need and scope for innovation and growth. We are positioning ourselves as a preferred partner for companies and those seeking to commercialise their innovative products into Europe.

Read a case study on **page 18**

4

Creating value for stakeholders

We create value for our employees by offering career development for highly skilled individuals as part of an expanding organisation.

We create value for customers by being highly responsive to the medical and business needs of vets and by providing trusted and innovative therapies and services for the animals in their care.

We will create long-term value for shareholders by being a cash generative, dividend paying, growth company with a solid portfolio of existing products and an innovative pipeline.

Read about our strategy on **page 12**

Q&A WITH THE CHIEF EXECUTIVE

"On joining Animalcare I saw opportunity to bring the team together and build the pipeline to drive future success"

Jenny Winter
Chief Executive Officer

Q What attracted you to join Animalcare?

A When I was first introduced to Animalcare through the web site, the Annual Report and talking to the recruitment team, I was surprised by the many similarities between Animal and Human Healthcare businesses. I was intrigued and I saw where my own broad experience across functional areas and countries could add value, plus the opportunity to continue my personal development – with lots to learn.

When I met the Senior Team at Animalcare I recognised the energy and commitment, and the challenge that we faced. I have always been passionate about leadership and have a strong belief the difference between success and failure is the people. I saw a huge opportunity to bring the team together into the new post deal company and really drive future success.

From a very personal perspective – I have always been interested in animal health with aspirations as a teenager to be a vet!

Q What skills and experience will you bring to Animalcare from big pharma?

A I worked in a broad range of functions and countries in the human pharmaceutical sector and this has given me an insight into the critical functions. The areas that I am already experiencing that are directly transferable include Research and Development, Sales and Marketing and Supply Chain as well as Corporate Affairs. Throughout all my previous roles, Financial management was a corner stone. From the perspective of knowledge and understanding – all these areas are transferable.

As I said previously, I have been passionate about leadership throughout my career and have had an opportunity to learn from some of the "best in business"

In in the last 12 years I have spent most of my time leading large diverse teams across the world. I've lived in different countries including Hungary, Australia, Ireland and the US and I have found the experience of working with different cultures is very helpful during my first six months at Animalcare.

Q What are some of the differences and similarities between the human pharmaceutical industry and the animal health industry?

A In most countries, the Government is a critical stakeholder in human health as a payer or structurally and over the last 20 years countries have adopted a more centralised approach to healthcare delivery. In animal care the government is less central to the provision of care to the pet, farm animal or horse – yet they still have a critical role in the regulatory process and legislative framework. The structure of the markets in animal health is more diverse – but is starting to consolidate with the increasing importance of buying groups, corporate ownership of practices and the development of primary and secondary treatment centres and specialist hospitals.

Whilst the therapies used in animal health are similar to human health, and I find myself working on many familiar products – having an indication by species is a significant difference and the regulatory requirements for each species create more complexity than a clinical program for humans.

Pricing of products in human health is driven by regulations and payer organisations in most countries with the "out of pocket" market moving gradually to an insurance or government-based funding model.

In animal care the increase in buying groups and corporates is starting to drive the need for good economic arguments for new products however these changes are happening more gradually and at a different pace in different countries. This means that our organisation needs to be agile and flexible, and close to our customers, so that we can build the right business model, adapt our organisation and respond to the pace of change.

Q What do you think are biggest opportunities in sector?

A The biggest opportunity from a financial perspective is that the market is growing, pet ownership is increasing and there are positive developments in the market place, both in terms of new treatments and in terms of new customers.

Q What do you see as Animalcare's greatest challenges?

A Animalcare is the combination of three successful businesses that came together in 2017. Esteve, Animalcare UK and Ecuphar. Each business had different products, portfolio and culture which created a complex and fragmented organisation.

The delay in integration has led to a difficult 18 months and has had significant financial consequences. Integration has now been give high priority and actions are in place to simplify the organisation, reduce duplication and prioritise the critical activities. Whilst late, these actions will create an organisation that is more cost effective, efficient and equipped to drive sustainable growth over the next 3 to 5 years.

Q What is Animalcare's greatest strength?

A Without wanting to sound cliched – the people are our biggest strength. The team is passionate and committed with many of the right skills and capabilities. We have people with experience in innovative new products, we have great relationships between our sales people and their customers, and we are developing a strong leadership team. We will focus on attracting, developing and retaining the right people.

Animalcare Group has a history of growth and financial success, we have a competitive portfolio of products, we have a good network and we are developing a pipeline of future products that will help us to be the partner for better animal health and create sustainable growth.

Jenny Winter
Chief Executive Officer

OUR STRATEGY

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

Five Pillars	Key Goals	Key initiatives
Strong finances	• Revenue Growth	• Focus on therapeutic areas with highest potential • Focus on higher margin products • Leverage strengths across all markets in which we operate • Maximise opportunities in high growth markets through partnerships or selective acquisition
	• Cash generation	• Supply chain efficiency • Optimise inventory management • Relationships with preferred third-party suppliers • Commercial and cost synergies through integration
	• Underlying EPS and stakeholder return • EBITDA margin increase	• Effective cost management
Growth portfolio	• Focus on existing core brands that generate sustainable growth and margin. • Establish in-house sustainable pipeline	• Build on capabilities in pain, dermatology, dental, disease prevention, surgery and microchipping. • Prioritise and accelerate in-house R&D
Customer relationships	• Chosen partner for vets and veterinary groups	• Strengthen commercial teams and specialist expertise • Provide extensive range of trusted, high quality products in target therapeutic areas • Flexibility to respond to evolution of different markets
Business Development	• In license products and develop network partnerships	• In-license and acquire innovative products • Be selected partner for companies selling into Europe • Build ongoing partnerships in growing markets globally
Organisation for success	• Increase employee engagement	• Build leadership capabilities. • Align reward to performance • Drive communications and collaboration. • Improve diversity
	• Attract, retain and develop talented people	• Develop unified culture

Diversity at all levels is a core component of a successful international business and a key value for Animalcare. During the past year, the Senior Leadership Team has been expanded with a growing breadth of expertise, approaches, cultures and gender balance, with women in leading positions including the Chief Executive Officer, Group Head of Technical and Commercial Development and Group Head of HR. Women have also recently been appointed as Country Managers in Spain (Maria Lasagabaster Castillo), Benelux (Sara Maddens) and the UK (Sam Williamson).

Animalcare's most important assets: our people and culture

The Animalcare Group has been created from three distinctive companies across Europe, giving us a strong international presence and creating new opportunities for our business and employees.

Aligning and uniting employees in different countries with varied backgrounds is key to delivering Animalcare's growth strategy and achieving our full potential.

The Group has initiated an extensive programme to motivate employees, attract the best industry talent, develop a diverse and unified culture and drive understanding of the Group's goals.

Key elements of the programme include:

- Enhanced communications across all parts of the business through a newly-launched "People Portal"
- Local and international teams to generate new ideas and reinforce the sense of "One Animalcare".
- A Talent Management Programme focused on career development, performance management and communication of our strategy and values.
- Leadership Development Programmes to ensure managers are equipped with the right skills to drive change, add value and deliver profitable growth.
- Regular anonymised employee surveys to help management gather new ideas, understand employee concerns and address practical issues as they arise.

Animalcare recognises the need to retain and attract individuals with the skills and expertise that will drive growth. We are developing a Group-wide Reward and Recognition programme based around our values to recognise excellence and address under performance, and preparing the introduction of an LTIP for senior management that will align their interests with the long-term success of the business.

Clockwise from top:
Maria Lasagabaster Castillo,
Sam Williamson and Sara Maddens

Read about our key performance indicators on **page 14**

OUR KEY PERFORMANCE INDICATORS (KPIs)

The Group utilises the following Key Performance Indicators (KPIs) aligned to our purpose and strategy of delivering sustainable growth.

Strategic Driver	KPI and definition	Why we measure this	Commentary on performance
Strong finances	**Revenue Growth** Organic revenue growth including new products versus prior year proforma revenue, which excludes the impact of disposals.	Revenue growth is an important barometer of the Group's success in delivering its strategy and is a key component of growing our profits and cash flow.	2017 £70.6m 2018 £72.5m The Group delivered proforma revenue growth from continuing pharma operations of 2.7%. Revenue from new products launched in the last two years was £3.2m (2017: £3.0m)
	Underlying cash conversion Cash generated from operations as a percentage of underlying EBITDA from continuing operations.	Our quality of earnings is reflected in our ability to turn underlying EBITDA in to cash, important to generate the funds we need to invest in new products and to maintain dividend payments.	2017 65.9% 2018 78.7% Underlying cash conversion improved to 79.9% in the year due to focus on working capital offset by higher cash taxes
	Basic Underlying Earnings per share ("EPS") Underlying profit after tax divided by the weighted average number of shares.	Underlying EPS is a key indicator of our performance and the return we generate for our stakeholders.	2017 10.8p 2018 11.7p Underlying proforma basic EPS generated by the continuing pharma business increased by 8.3% in the year.
	Underlying EBITDA margin Underlying EBITDA as a percentage of sales.	This is a measure of the operating efficiency of the Group with focus on translation of sales growth to profit.	2017 16.3% 2018 16.3% Underlying proforma EBITDA margins have remained comparable to 2017 as we continue to invest carefully in the business whilst progressing with the integration of our operations.

Strategic Driver	KPI and definition	Why we measure this	Commentary on performance
Growth Portfolio	**Create and deliver in-house R&D**	To maintain its competitive position, Animalcare must invest to provide a sustainable flow of products from our pipeline aligned with our strategy.	Six projects were submitted to the regulatory authorities in 2018 including extensions to our "care" range across multiple countries. Launches are planned for these products throughout 2019.
Business Development	**New products launched outside of our own development pipeline**	This measure shows our success in launching new products via in-licensing, acquisition and partnerships.	We brought in four new products that are in our core therapy areas, the most significant being the new commercial supply agreement for Cosequin.
Organisation for success	**Employee engagement** A measure of employee engagement based on the well-established Gallup Q12 index.	Employee engagement surveys enables comparison between the Group and other companies. The primary purpose of the survey is to provide guidance to the Leadership Team about how they can improve employee engagement.	During 2018, we conducted our first employee engagement survey, establishing a baseline for future measurement. The score reflects a period of significant change for many employees while we integrate the Group.

Read about our strategy on **page 12**

CHIEF EXECUTIVE OFFICER'S REVIEW

"2018 was a major milestone in our journey to be one of the leading European veterinary pharmaceutical businesses. We have delivered growth versus 2017 and we have agreed our five year goals and the strategies to achieve them."

Jenny Winter
Chief Executive Officer

Since joining Animalcare in October 2018, I have been impressed by the competitive strengths of the business and the quality of the growth opportunity. Since joining and following the disposal of our wholesale business in September 2018, a thorough review has been undertaken. Following this review and detailed discussions with the Board, I have set out a strategy to enable us to build on the existing portfolio, experience and capabilities to become an important player in the European animal health market and beyond. I have also reviewed our pipeline and established the principles we will use to build a sustainable future.

The strategy is built around five pillars:

- Strong finances
- Growth portfolio
- Customer relationships
- Focused business development
- The organisation for success

In the seven European markets where we have commercial operations we market and sell our own products. We also market and sell products from other companies through our established sales teams. In countries where we do not have sales teams, we work with our network partners to commercialise our own products. With this footprint we are active in 32 countries in Europe and a further 16 in the rest of the world.

We employ over 110 fully trained sales representative and technical experts who are working closely with our customers including dedicated Key Account Managers who work with our larger Corporate Partners

We have a broad portfolio of licensed drugs, vaccines and care products including nutraceuticals in the companion animal, equine and production animal segments of the market. In the UK we are also one of the leading providers of pet microchips and have a successful pet reunification service.

2018 Operational performance:

Financials

On a proforma basis, sales in 2018 increased by 2.7% to £72.5m versus the prior year and were in line with the market growth for the countries and segments in which we operate. This increase is driven by organic growth in companion animals (+6.0%) offset by a decline in production animal sales of 3.6%.

Growth in Companion Animals was driven by the launch of new products including Cosequin (Spain) and the annualised impact of products launched in 2017. Equine sales were flat and the decline in sales in production animals is driven by the reduction in the use of antibiotics and our antibiotics sales versus 2017 declined at 15%. Belgium and Italy saw the largest decline.

Our top three selling products in 2018 were Dinalgen Injection for the treatment of pain, Conofite, an antifungal treatment and Orozyme, an established oro-dental product and accounted for 12% of sales.

The top 20 products accounted for 47% of our total sales. Filavac (+38%), Aqupharm fluids (+27%) and Cosequin (joint supplement) (+230%) were the most significant growth drivers in the portfolio. Our microchip business in the UK continued to perform well with growth of 31%. Whilst overall sales in farm animal declined, Dinalgen Injection performed strongly with revenue up 31%.

Our operating overheads increased by +0.7% with a mix of increases in employee costs and decreases in other operational expenses.

Underlying EBITDA increased by 2.8% driven by growth in Germany and the UK, offset by a decline in Belgium and Spain. Overall growth was impacted by some out of stocks due to supply chain challenges, some delays in approvals for new products and the pace of the decline in antibiotic prescribing.

New product launches and regulatory filings.

We have been building our product portfolio and technical efficiencies in 2018. We have made 17 submissions for products that are either new to our portfolio, or new in a specific country both within Europe and Globally. We have made over 50 submissions including extensions to the life cycle of existing products that will increase efficiency and decrease costs.

We launched ten new products in 2018 and will see the full year impact of these launches in 2019.

In 2018 we completed a strategic review of our development pipeline and re focused our activities to drive growth in the next five years.

We have accelerated the development programme for our novel pain treatment by four months and we terminated the development of two products, either due to commercial or technical reasons.

Six projects were submitted to the regulatory authorities in 2018 including extensions to our “Care” range across multiple countries that will strengthen our portfolio in the key therapeutic areas. Launches are planned for these products throughout 2019 and into early 2020.

People

We have continued the work that was done in 2017 to strengthen our Leadership Team and have established a core team to drive simplicity and avoid duplication. We have appointed Martin Gore as our Group Head of Commercial, to drive excellence within our Sales and Marketing teams. Stephen Pearson has been appointed Group Head of Supply Chain and will be focussed on improving customer service and on time in full delivery to our customers as well as managing inventory. Karolyn Tapper continues to lead our Technical team and Chris Cardon has taken the role of Chief Strategy Officer with responsibility for identifying new opportunities for the Group.

The newly created Leadership Team consists of the Group functions and Country Managers to ensure that we remain close to our customers through the leaders in each country. Post year end, we have further strengthened our Country Manager team with the appointment of Sara Maddens to lead the team in Benelux.

Having the right people in place is critical to our long-term success. I am determined that Animalcare will develop a positive and unified culture, with a rewards system and career development path to attract and retain the best talent in our industry. We plan to introduce a Long Term Incentive Plan in May 2019 to reward senior employees for sustained performance.

The Group has been strengthened by a focus on placing the right people in the right place.

CHIEF EXECUTIVE OFFICER'S REVIEW

"We are building an effective organisation that is fit for the future and that will drive growth over the next 3 – 5 years."

Jenny Winter
Chief Executive Officer

Integration

Animalcare has not yet seen the benefit of the combined organisation in the financial returns however great progress has been made on the 5 key areas outlined in plan in the past six months. Our highest priorities are:

1. Drive maximum value from the combined portfolio.
2. Establish a robust supply chain.
3. Align our pipeline to the growth strategy
4. Align our people strategy including our reward system.
5. Drive commercial excellence

We have established a new Leadership Team and organisational structure to facilitate the implementation of the integration plan and to drive performance including through simplification, focus and cross functional working. Clear targets are in place to track our progress.

Our growth strategy

To deliver sustainable and profitable growth we will focus on therapeutic areas where we have existing capabilities and with the greatest growth potential, through higher margin innovation, expansion of our geographic reach and careful control of our costs. By growing faster than the markets where we operate, controlling OPEX and improving operating cash conversion, we can focus resources where they will bring the best returns while continuing to reward shareholders.

Our future Pipeline

Our pipeline will focus on five therapeutic areas in the companion animal and equine markets where we are already strong and have the potential to add value through innovation. These are pain management, dermatology, dental, disease prevention and surgery. Animalcare also owns identichip, the UK's leading pet microchipping business and database, with significant scope for growth in the UK and internationally.

The Aqupharm fluid range is another example of Animalcare's commitment to innovation and delivering high quality products that make a difference to our customers and support their needs.

Aqupharm case study

Fluid therapy forms a vital component of veterinary medicine and is increasingly recognised as a major contributing factor to successful outcomes in the treatment of many medical conditions and procedures.

For almost 30 years, Animalcare has been working with veterinary professionals to deliver its best-in-class fluid therapy, Aqupharm, to animals both large and small. Following success in the UK, Animalcare is now taking the Aqupharm range into other markets and geographical expansion is a key component of the overall growth strategy for the brand. Animalcare has focused effort and resources to raise vets' awareness and understanding of how fluid therapy can improve outcomes for animals, facilitating international growth for the Aqupharm brand.

The high quality of Aqupharm is demonstrated by its leading position in the UK, where it accounts for 50% market share, and continues to grow. The range is expected to grow by 12.5% in 2019 and 25% by 2021.

Aqupharm was the first veterinary-licensed intravenous fluid range, for use during routine operations and treatment of dehydration and shock. As well as fluid therapy, the Aqupharm brand also offers a full range of infusion accessories, from catheters to infusion sets.

We will continue to support our production animal business through targeted products with specific customer groups.

Our customers

We will focus on vets and veterinary groups as our main customers, benefiting from our existing expertise and strong relationships. We want to become the chosen partner in Europe for innovative animal health products for companies around the world. We will seek to improve the quality and profitability of our portfolio by in-licensing and acquiring late- and commercial-stage products, and accelerating our own R&D through targeted investment.

Our footprint

We have established networks in 25 countries in Europe and another 16 globally. We will continue to develop these networks to maximise the sales of our products and where it makes sense to establish a presence we will do so – either as a stand-alone business or in partnership.

Summary and outlook

We are building an effective and focussed organisation that is fit for the future and we have a clear strategy to grow over the next 3 to 5 years. One of the critical things for our organisation is to track progress and we have established goals, objectives and measures so we can ensure we achieve our financial targets. We have established clear milestones and will report against those. To deliver on the expectations we set, we will focus on generating cash for investing, for rewarding our shareholders and for paying our debt. Success will be driven by the 5 pillars of our strategy- Strong finances, a portfolio for growth, our customer relationships, our business development and most importantly – our organisation of highly engaged and talented people.

I look forward to sharing more details over the coming weeks, months and years as we implement our strategy for success.

Jenny Winter
Chief Executive Officer

Identichip®, identibase® and identifind®

Identichip®, identibase® and identifind® are all part of the UK's longest-established pet microchipping service. Animalcare has built an invaluable store of information and expertise over 30 years, with innovative products that lead the way in microchipping, animal identification and reuniting pets and their owners. Since its launch in 1989, over 5 million animals have been microchipped with identichip® and our dedicated team have helped bring thousands of lost pets back home.

Today over 1,750 vets, charities, local authorities and animal welfare organisations use identichip® to provide safe and effective identification that they can rely on. Leading UK charities including the RSPCA, Cats Protection and PDSA have all chosen Animalcare as their trusted microchip and pet database provider.

identibase® plays a key role in tracing lost pets. It has been shown that pets are twice as likely to be found when they have been fitted with an identibase® microchip. Today, over 12,000 contact points at vet practices, charities, local authorities and animal welfare organisations work together with Animalcare to help identify and bring lost pets home, with a team of representatives on call 24 hours a day to help pet owners.

Building on the track record of success in the UK, Animalcare is looking at ways to expand the service in other markets across Europe. We believe identichip® and identibase have the potential to become major new international products and services for Animalcare, backed by continuing improvements in technology and innovation.

CHIEF FINANCIAL OFFICER'S REVIEW

"We have delivered growth at a time of much change within our business. We continue to focus on delivering sustainable profit growth and improved cash generation"

Chris Brewster
Chief Financial Officer

Introduction and presentation of results

On 13th July 2017, Animalcare Group plc completed the reverse acquisition of Ecuphar NV. 2018 therefore reflects the first full year of trading as a combined Group. On a statutory basis, and in accordance with IFRS3, the results for the comparative year ended 31st December 2017 represent twelve months of Ecuphar NV and approximately five and a half months of Animalcare Group plc as previously constituted.

In addition, following the divestment of our Wholesale business on 4th September 2018, both the 2018 and 2017 financial information have been presented to show the Pharmaceuticals segment as continuing operations separately from the Wholesale segment, which has been classified as discontinued.

Accordingly, to help Shareholders to assess the Group, an unaudited Proforma Consolidated Income Statement has been provided, which reflects twelve months of trading from the continuing Pharmaceuticals segment for both entities for 2018 and 2017. The Board believes that this statement provides the most appropriate basis for comparison of current and future operating performance. On this basis, the Group has delivered proforma revenue growth of 2.7% to £72.5m (2017: £70.6m) and proforma underlying EBITDA growth of 2.8% to £11.8m (2017: £11.5m). On a statutory basis, including non-underlying items, the Group delivered a loss after tax of £0.8m (2017: £0.2m profit).

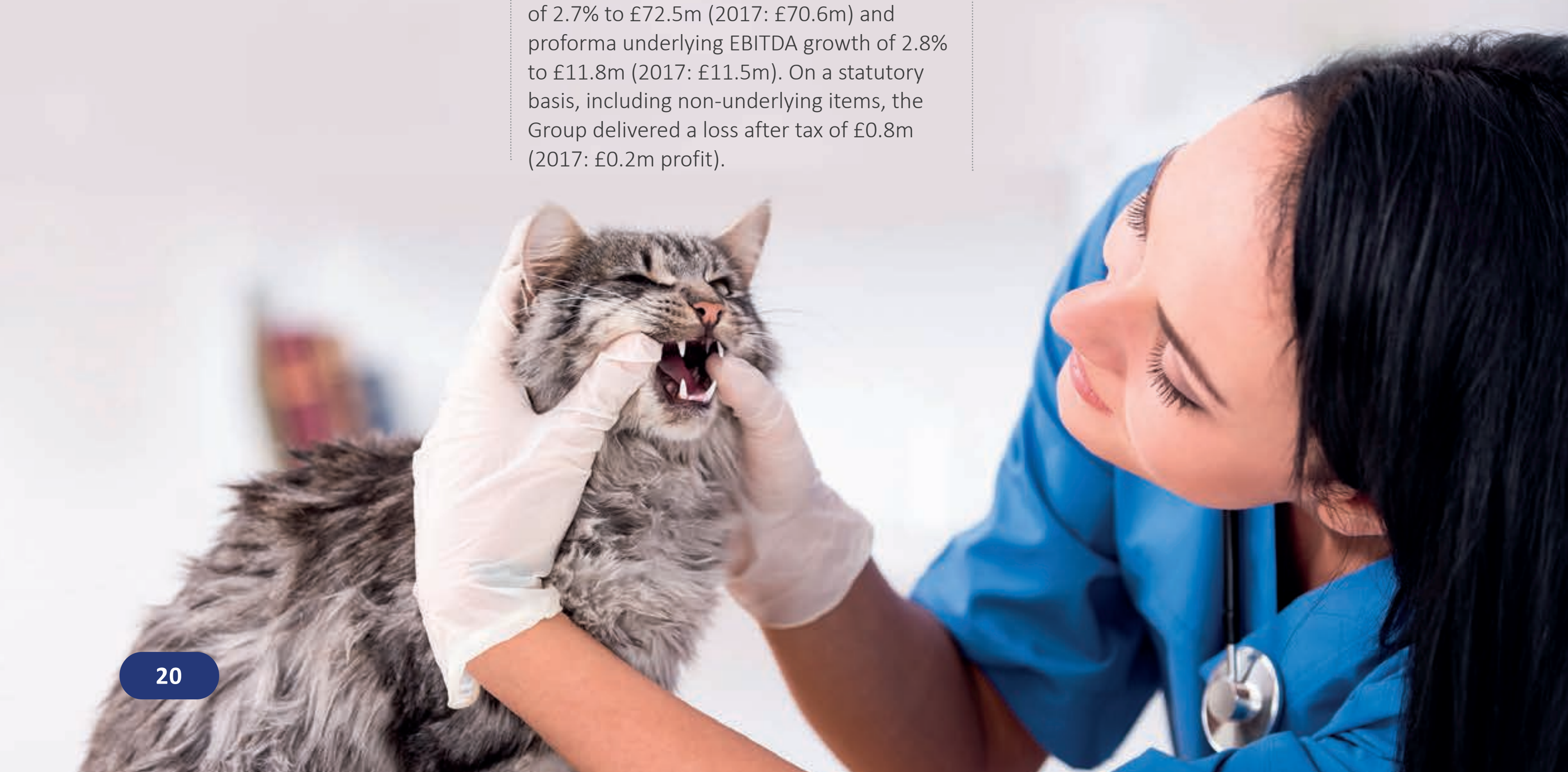
Underlying and Statutory Results

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.

Financial Review

Pro forma Consolidated Income Statement (unaudited)

Compared to the statutory results for 2018, the unaudited Pro forma Consolidated Income Statement set out below represents the continuing pharmaceuticals segment for both 2018 and 2017, with the 2017 comparatives including an additional 28 weeks of Animalcare Group plc's results prior to the reverse acquisition. This has the impact of increasing 2017 revenue and underlying EBITDA by £8.3m and £1.8m respectively as set out in the table (right):



	Unaudited		Unaudited	
	Continuing Operations 2018 £'000	Continuing Operations – Post-acquisition 2017 £'000	Animalcare pre-acquisition 2017 £'000	Total proforma Continuing Operations 2017 £'000
Revenue	**72,470**	62,291	8,267	70,558
Gross Profit	**37,339**	32,325	4,464	36,789
Operating expenses	**(37,122)**	(31,309)	(5,753)	(37,062)
Operating profit/(loss)	**217**	1,016	(1,289)	(273)
Depreciation, amortisation & impairment	**9,588**	6,480	199	6,679
Non-underlying items	**1,993**	2,202	2,867	5,069
Underlying EBITDA	**11,798**	9,698	1,777	11,475
Net financial expenses	**(574)**	(639)	(1)	(640)
Profit/(loss) before tax	**(357)**	377	(1,290)	(913)
Taxation	**135**	(292)	(82)	(374)
Net (loss)/profit	**(222)**	85	(1,372)	(1,287)
Underlying net profit	**7,016**	5,175	1,309	6,484
Underlying basic EPS (p)	**11.7p**	–	–	10.8p

Revenue

On a proforma basis, the Group delivered revenue growth of 2.7% to £72.5m (2017: £70.6m), split by product category as shown in the table below:

	Unaudited	Unaudited	
	2018 £'000	2017 £'000	% Change at AER %
Companion Animals	**44,465**	41,937	6.0%
Production Animals	**22,824**	23,680	(3.6%)
Equine and other	**5,181**	4,941	1.4%
Total	**72,470**	70,558	2.7%

Companion Animals revenue continues to be the largest proportion of the Group's business, representing 61.4% of total sales, up from 59.4%. As our existing portfolio continues to mature and be impacted by pricing pressure and changes in the competitor landscape, new products remain the main driver for the overall revenue growth of 6.0% to £44.5m (2017: £41.9m). We launched seven new products during the year including the nutritional supplement Cosequin in Spain, which contributed £2.4m sales in total. This was supplemented by £0.8m annualised growth of products launched in 2017 that were sourced from our partners, principally in Germany. Overall growth was impacted by supply challenges towards the year end relating to certain third-party manufacturers.

Production Animals revenue contracted by 3.6% versus prior year largely driven by lower demand for antibiotics offset in part by higher export sales of in particular Dinalgen (anti-inflammatory). Equine and other sales were broadly flat at £5.2m.

Underlying proforma continuing EBITDA increased by 2.8% to £11.8m with corresponding margin consistent with prior year at 16.3%. Gross margins at 51.5% modestly declined compared to prior year (2017: 52.1%) primarily reflecting lower margin sales mix in Companion Animals and the competitive environment. SG&A costs as a percentage of revenue reduced in the year from 35.9% to 35.2% as the business has continued to focus on costs efficiencies whilst investing in our people to support the integration and future growth.

Underlying proforma continuing basic EPS increased by 8.3% for the year to 11.7p, based on a weighted average number of shares of 60.0m applied to both 2018 and 2017. The effective tax rate was 22.3% (2017: 23.0%) primarily reflecting increased research and developments tax credits and partial utilisation of tax losses.

CHIEF FINANCIAL OFFICER'S REVIEW

Underlying and Statutory Results

As a result of the reverse acquisition of Ecuphar NV, both the underlying and statutory basis for reporting results for the year ended 31st December 2017 include approximately five and a half months of Animalcare Group plc as previously constituted. The 2018 results are those noted in the unaudited Proforma Consolidated Income Statement on page 21.

Overview of Underlying financial results – Continuing Operations

	2018 £'000	2017 £'000	% Change at AER %
Revenue	**72,470**	62,291	16.3%
Gross Profit	**37,339**	32,325	15.5%
Gross Margin %	**51.5%**	51.9%	(0.4%)
Underlying Operating Profit	**9,604**	7,560	27.8%
Underlying EBITDA	**11,798**	9,698	21.7%
Underlying EBITDA margin %	**16.3%**	15.6%	0.8%
Basic Underlying EPS (p)	**11.7p**	12.3p	(4.9%)

We delivered revenue of £72.5m and underlying EBITDA of £11.8m, representing growth of 16.3% and 21.7% respectively compared to the previous year. This was achieved through a combination of modest underlying growth as noted in the proforma results review together with a full year trading impact of the acquired Animalcare operations.

Underlying EBITDA margin improved to 16.3% largely reflecting the higher margin Animalcare business together with overall focus on costs to improve operating leverage. This focus includes a restructuring of our UK commercial team to put more emphasis on supporting larger corporate customers as well as continuing to provide strong service levels to independent practices. We expect this trend to continue and will closely monitor and adapt the Group's operations accordingly.

Basic underlying EPS decreased to 11.7 pence reflecting the 35.6% increase in underlying profit after tax to £7.0m offset by the significant increase in the weighted average number of shares resulting from the full year impact of the reverse acquisition (see note 8).

Overview of reported financial results

Including the loss from the discontinued operations and non-underlying items, the Group reported a loss after tax of £1.0m (2017: £0.2m profit).

A reconciliation of underlying results to reported results for the year to 31st December 2018 is shown in the table (right):

	2018 Underlying results £'000	Discontinued operations £'000	Amortisation and impairment of intangibles £'000	Acquisition, restructuring, integration and other costs £'000	**2018 Reported results £'000**	2017 Reported results (restated) £'000
Revenue	**72,470**	–	–	–	**72,470**	62,291
Gross Profit	**37,339**	–	–	–	**37,339**	31,924
Selling, general & administrative expenses	**(24,312)**	–	(4,789)	–	**(29,101)**	(26,396)
Research & development expenses	**(3,466)**	–	(1,296)	–	**(4,762)**	(2,799)
Net other operating income (expenses)	**43**	–	(1,309)	(1,993)	**(3,259)**	(1,713)
Operating Profit	**9,604**	–	(7,394)	(1,993)	**217**	1,016
Net finance expenses	**(574)**	–	–	–	**(574)**	(639)
Profit/(loss) before tax	**9,032**	–	(7,394)	(1,993)	**(357)**	377
Taxation	**(2,016)**	–	1,822	329	**135**	(292)
Profit/(loss) after tax	**7,016**	–	(5,573)	(1,664)	**(222)**	85
Loss/(profit) from discontinued operations	**–**	(776)	–	–	**(776)**	99
Profit/(loss) for the year	**7,016**	(776)	(5,573)	(1,664)	**(998)**	184
Basic EPS (p)	**11.7p**				**(1.7p)**	0.2p

The sale of our wholesale division was completed on 4th September 2018 with financial effect from 1st July 2018. The loss from discontinued operations was £0.8m which primarily represents the loss on disposal. Additional details are shown in note 4. Of the total £3.0m consideration, £2.4m has been received with a further £0.4m payable to the Group on 30th June 2019 in relation to the remaining intercompany balance owed. The balance of approximately £0.2m is subject to achieving specific revenue targets between 1st July 2019 and 30th June 2020 and payable in July 2020.

The amortisation and impairment of intangibles charge of £7.4m (pre-tax) principally comprises £4.6m charge arising on the acquired intangibles relating to the reverse acquisition and £2.5m charge in respect of previous acquisitions made by Ecuphar NV, namely Esteve SA which was acquired on 30th April 2015.

The remaining statutory items totalling £2.0m largely relate to restructuring and integration costs as detailed in note 5. Restructuring costs of £1.2m principally relate to executive changes, senior management restructuring and the UK commercial team reorganisation as noted earlier.

The reported basic loss per share, which incorporates non-underlying items, decreased to 1.7 pence (2017: 0.2 pence earnings per share).

Dividends

The Board is proposing a final dividend of 2.4 pence per share, adding to the interim dividend of 2.0 pence per share paid in November 2018, giving a total dividend of 4.4 pence per share for the year ended 31st December 2018, the first full financial year as a combined Group. The Board continues to monitor the dividend policy, recognising the need for a balance between investment to support future growth and dividend flow to deliver overall value to our shareholders.

CHIEF FINANCIAL OFFICER'S REVIEW

Cash flow, net debt and borrowing facilities

The Group is committed to improving cash generation, important to generate the funds we need to invest for growth and to maintain dividend payments. We will monitor progress using cash conversion as a percentage of underlying EBITDA as set out in the table below:

	2018 £'000	2017 £'000
Underlying EBITDA	**11,798**	9,698
Net cash flow from operations	**7,430**	2,425
Non-underlying items	**1,993**	3,968
Underlying net cash flow from operations	**9,423**	6,393
Cash conversion %	**79.9%**	65.9%

The Group's underlying cash conversion significantly improved during the year to 79.9%, with net cash flow generated by our operations increasing to £7.4m (2017: £2.4m). Working capital increased by £0.9m, largely relating to further increased stocks. Our Group Head of Supply Chain has a clear target to reduce inventory levels over the next two years. Cash taxes of £2.2m were significantly higher than 2017 largely due to settlement of prior year taxes in Belgium and higher cash tax in Spain.

	£'000
Net debt at 1st January 2018	**(25,908)**
Net cash generated from operations	7,430
Net capital expenditure	(4,781)
Proceeds from divestment of wholesale operations	2,403
Net finance expenses	(626)
Dividends paid	(2,401)
Receipts from issue of share capital	170
Other cash movements	474
Foreign exchange on cash and borrowings	(349)
Net debt at 31st December 2018	**(23,588)**

Net capital expenditure of £4.8m largely comprises investment in our product development pipeline of £4.2m from which six new products are expected to be launched during 2019 and into early 2020. The balance of expenditure largely relates to investment in our IT infrastructure which has made strong progress. This includes a new CRM system in Italy and SAP in the UK which went live on 1st January 2019. Both represent important steps in delivering our objective of common platforms across the Group which will help to drive integration and improve efficiencies.

The net borrowing position at the end of the year was £23.6m, representing net debt to underlying EBITDA leverage of 2.0 times (maximum bank covenant ratio is 3.5 times). At 31st December 2018, total facilities were £46.4m, of which £29.8m, net of cash balances, was utilised, leaving headroom of £16.6m. 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 investment.

Brexit

Whilst the outcome of the Brexit negotiations remain unclear our contingency preparations are on track to maintain commercial supply. We expect to incur one-off costs of circa £0.3m in relation to transfer of product registrations during 2019.

Summary and outlook

The Group delivered continued revenue growth in the year and translation through to both underlying profit and cash conversion is beginning to improve. We remain focused on our medium to long-term objective of delivering sustainable profit growth and improved cash generation, with cash flow expected to be supported by lower inventories.

Strategically and operationally it continues to be a time of change for the Group with the pace of integration of our businesses accelerating given the greater focus by our Leadership Team. During 2019, the drive for improved efficiency and integration across the business will continue including the integration of our Product Development and Regulatory teams. We will also focus on portfolio optimisation, improving service and driving efficiencies in our supply chain, all of which will require investment.

Whilst our performance was not as strong as originally expected, we have made steady progress across the business over the last 12 months and delivered growth at a time of much change within our business and the market. We will continue to seek opportunities to grow our business and I believe we are well placed to deliver medium to long-term shareholder value.

Chris Brewster
Chief Financial Officer

OUR PRINCIPAL RISKS

Risk Management Framework

Accountability for reviewing and monitoring

Responsibility for implementation

THE BOARD	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. The Board also sets the risk appetite of the Group.
AUDIT COMMITTEE	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.
MANAGERS	Managers are responsible for ensuring that the risks identified by the Board and the Audit committee are mitigated. The managers will implement strategies to mitigate the principal risks and other risks outlined by the Board.

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
Market risk In certain geographies the veterinary market continues to see the emergence and growth of corporate customers and buying groups who are looking for value from the products and services we provide.		The emergence and growth of corporate customers and buying groups represents an opportunity for sales volume growth but may result in lower margins.	We continue to develop and strengthen our sales and marketing teams in respect of key account support and achieve our goal to better serve our changing customer base, both on a national and in future a European basis	

Strong finances | Business Development | Competitive portfolio | Clear customer focus | Right organisational strategy, structure and culture for success

Risk	Alignment to strategy	Potential impact	Mitigation	Trend
Competitor risk Launch of competitor products against our key brands, for example other generic or more innovative products.		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, including life-cycle management. Diversification of our product portfolio and geographies will lessen the impact on our business.	
Reliance on third parties risk As the Group does not manufacture any of its own products in-house, it relies extensively on third parties for supply of finished products, whether our own brands or those sold on behalf of our partners via distribution arrangements.		Any disruption to the relationship with our key supply partners, whether commercial, 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.	The Group operates a broad portfolio of products from a variety of supply partners and aims not to be over-reliant on any one particular supplier. Given the increasing complexity and diversity in our supply chain, we have identified the need for increased specialist resource in this area which will be led by the Group Head of Supply Chain. We monitor supplier performance and aim to maintain adequate inventories, including safety stock held by our suppliers, based on risk assessments.	
Integration risk The integration of the Group is wide-ranging and may fail to deliver expected returns due to integration challenges		Failure to deliver the integration to the expected timetable together with efficiencies will inhibit growth and lead to higher costs and lower than expected profits.	We are focused on delivering the most impactful integration actions first to reduce the complexity that was created by the bringing together of a number of different companies. We have a dedicated integration manager to lead and ensure delivery of the key integration priorities.	
Product development and Launch risk Failure to successfully launch new products from either our own development pipeline or from our partner pipelines could have a material impact on the Group's results and damage our market position and relationship with our customers.		Significant delay in launching a product from our own pipeline or via our partners could adversely affect our ability to deliver revenue expectations. Failure of a development project would result in impairment of intangible assets.	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.	

Risk has increased

Risk has decreased

No change

Read about our strategy on **page 12**

OUR PRINCIPAL RISKS

Risk	Alignment to strategy	Potential impact	Mitigation	Trend
Regulatory risk We operate in a highly regulated animal health environment. Failure to meet or adhere to regulatory standards could affect our ability to register, manufacture or promote our products.		Non-compliance with regulatory requirements may result in delays to production or lost sales. Brexit transition may result in additional regulatory and quality control requirements and associated 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.	
People risk The right organisational strategy, structure and culture will be a critical part of our success. Our ability to attract, develop and retain high calibre individuals in key roles is core to this.		Failure to retain and attract the best people could impact the successful implementation of our strategy and adverse impact on our results.	Our goal is to create "One Animalcare" by developing a unified culture and through integration. We aim to attract and retain best talent by offering competitive rewards, career development, investment in training and skills. 2018 saw our first group-wide engagement survey during a period of significant change across the Group. We are committed to acting on the feedback we received in the survey during 2019.	
Foreign Exchange risk The majority of the Group's revenues are denominated in Euros. However, the Group's presentational currency is sterling and therefore the reported revenues will depend on exchange rates prevailing during the relevant financial period.		There may be variability in our reported results caused by significant fluctuations in the sterling/Euro exchange rate.	The Group actively monitors the principal foreign exchange rates and will adopt hedging strategies when it is felt to be appropriate. The Group presents key financial measures on a constant currency basis to enable shareholders to compare the performance of the Group between reporting periods with the impact of strengthening or weakening sterling eliminated.	

Risk has increased

Risk has decreased

No change

Strong finances

Business Development

Competitive portfolio

Clear customer focus

Right organisational strategy, structure and culture for success

BOARD OF DIRECTORS

Jan Boone
Non-Executive Chairman

Jenny Winter
Chief Executive Officer

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 Remuneration and Nomination Committee

Relevant skills and experience

Jan is Chief Executive Officer of Lotus Bakeries which is listed on Euronext Brussels. He started his career in the audit department at PricewaterhouseCoopers and holds a master's degree in Applied Economics from KU Leuven and a master's degree in Audit from the University of Mons-Hainaut in Belgium. Between 2000 and 2005, Jan served as Head of Corporate Controlling and Member of the Executive Committee of Omega Pharma NV. He became Managing Director of Lotus Bakeries in 2005 and Chief Executive Officer in 2011 and also serves as a Non-Executive Director of Club Brugge.

Jenny was appointed as Chief Executive Officer of the Group on 1st October 2018.

Committee membership

By invitation

Relevant skills and experience

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

Jenny has also been CEO of the charity Barretstown, transforming it into a successful leading children's charity. Her work at the charity resulted in her being asked by Barretstown board member Dermot Gleeson, Chairman of Allied Irish Bank, to join the Board of the bank as a Non-Executive Director, a role she held from 2004 to 2010.

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

Chris Brewster
Chief Financial Officer and Company Secretary

Chris was appointed Chief Financial Officer in June 2012.

Committee membership

By invitation

Relevant skills and experience

Chris has a broad range of experience gained during his ten years of working across a number of functions at KPMG and through his role as Group Accounting Manager at Findus Group. Since joining Animalcare, he developed the systems, controls and management information needed to support the growth and strategy of the UK business.

Post-merger, Chris has taken responsibility for the changes required within the Finance and IT functions to create a robust platform for growth and more recently supporting the integration of the Group.

Chris Cardon
Chief Strategy Officer

Chris was appointed to the role of Chief Strategy Officer on 1st October 2018 and is responsible for developing the Group's acquisition strategy. Chris was previously Chief Executive Officer of Ecuphar NV and on its acquisition in July 2017 was appointed Chief Executive Officer of the Group.

Committee membership

By invitation

Relevant skills and experience

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

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

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

BOARD OF DIRECTORS

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 Remuneration and Nomination Committee

Relevant skills and experience

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

Marc founded Omega Pharma NV in 1987, developing the company into a leading pan-European OTC health and personal care business and serving as both Chairman and Chief Executive Officer. Following the sale of Omega Pharma in 2015 to Perrigo Company plc, he invests via his private investment firm, Alychlo NV, in several listed and non-listed companies.

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

Nick Downshire
Independent Non-Executive Director

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

Committee membership

Chairman of the Audit 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 and bringing objectivity and analysis to the Audit Committee.

James Lambert

Independent 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

Member of the Remuneration and Nomination Committee

Relevant skills and experience

James has spent his career helping to build, develop and manage successful businesses, enabling them to reach their full potential and give them strategic direction. 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 is currently Chairman of Burton's Biscuits, Inspired Pet Nutrition and Whitman Howard.

James won the EY UK Entrepreneur of the Year award in 2014 and represented the UK in the EY World finals.

Ed Torr

Independent Non-Executive Director
Senior Independent Director

Ed was appointed as a Non-Executive Director and Senior Independent Director on 13th July 2017 following the acquisition of Ecuphar NV. On 16th February 2019, Ed was appointed Chairman of the Remuneration and Nomination Committee.

Committee membership

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

Relevant skills and experience

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

He was part of the management buyout team that set up Dechra Veterinary Products in 1997 and was an executive director on the board of 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, Ed has independently advised various companies on sales and marketing structures, M&A opportunities, "in" and "out" licensing of products and investment opportunities within the veterinary and animal health market sector.

CORPORATE GOVERNANCE STATEMENT

"As 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

As Chairman, I am responsible for leading the Board and upholding high standards of corporate governance throughout the Group and particularly at Board level. As a Board, we recognise that applying sound governance principles is essential to the successful running of the Group, and supports its long-term success and strategy for growth. I am therefore pleased to introduce our Corporate Governance Statement which summarises our approach to governance and provides information about how the Board and its committees operate.

The Company is listed on AIM and from September 2018 has been required to provide a statement of its compliance with a recognised corporate governance code. After the Company's admission to AIM in 2014, the Board continued to follow the principles of the UK Corporate Governance Code, as appropriate to the size and nature of the Company. Following a review during 2018, the Board adopted the QCA Corporate Governance Code, an updated version of which was published in April 2018 (the "QCA Code").

The Principles of Corporate Governance

Compliance with the QCA Code:

The Board believes that it applies the ten principles of the QCA Code. We recognise the need to continue to develop our governance practices and disclosures in some areas, in order to ensure we continue to apply the principles effectively going forwards. The policies, procedures and relevant systems we have implemented to date provide a firm foundation for our governance structure and the Board regularly reviews the structure to ensure that it develops in line with the growth and strategic plans of the Group.

Deliver Growth

The Board has collective responsibility for setting the strategic aims and objectives of the Group and our strategy is articulated on pages 12 to 13 and on our website, along with our business model on pages 8 to 9. In the course of implementing our strategic aims, the Board takes into account expectations of the Company's shareholder base and also its wider stakeholder and social responsibilities.

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

Dynamic Management Framework

As Chairman, I consider the operation of the Board as a whole and the performance of the Directors individually. The Directors attend seminars from time to time and have regular updates at Board meetings to assist with training and awareness of compliance issues facing boards of quoted companies. Following the reverse takeover of Ecuphar NV in 2017 and resulting changes to the composition of the Board, the Board has re-established its annual board evaluation process. This involves the completion of a detailed questionnaire completed by each Director, the responses to which have been analysed and fed back to the Board with planned implementation of actions and recommendations.

Appointments to the Board are made on merit, but with due consideration to the need for diversity on the Board. All appointments are made to complement the existing balance of skills and experience on the Board.

The Company operates an open and inclusive culture and this is reflected in the way that the Board conducts itself. The Non-Executive Directors attend the Company's offices and other Company events. With a relatively small employee base, such interactions mean it is relatively straightforward for the Board to promote and assess the desired corporate culture. We do, however, recognise this is an area for continuing development, and we intend to further develop our assessment of the recognition of our corporate culture and ethical values going forwards.

Build Trust

During the year the Board has continued to review governance and the Group's corporate governance framework. The Board will continue to monitor its application of the QCA Code and revise its governance framework as appropriate as the Group evolves.

The Board recognises the importance of maintaining regular dialogue with shareholders to ensure that the Group's strategy is communicated and to understand the expectations of our shareholders.

Board capabilities

The Board consists of eight experienced Directors who between them have considerable experience in the following areas:

- Strong animal health and pharmaceuticals sector experience
- Leading international change programmes
- Managing a global supply chain
- New product development
- Business planning and development
- Acquisitions
- Financial and audit
- Marketing
- Governance

Jan Boone
Non-Executive Chairman

Animalcare Group plc
30th April 2019

CORPORATE GOVERNANCE REPORT

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.

The Board currently comprises three Executive Directors and five Non-Executive Directors. The biographies of the current Directors can be found on pages 30 to 33.

On 26th April 2018, Iain Menneer resigned from the Board.

On 1st October 2018, Chris Cardon took on the role of Chief Strategy Officer, remaining on the Board as an Executive Director, and Jenny Winter was appointed as Chief Executive Officer.

Collectively, the Non-Executive Directors bring an appropriate balance of functional and sector skills and experience such that they are able to provide constructive support and challenge to the Executive Directors.

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

Independence

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

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

The Board is aware of its duty to hear the voices of, and protect the interests of, all shareholders and has put in place contractual arrangements with Ecuphar Invest NV and Alychlo NV, in the form of a relationship agreement in order to protect minority shareholder interests. A 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 Remuneration and Nomination Committee the tasks of reviewing Board composition, searching for appropriate candidates and making recommendations to the Board on candidates to be appointed as Directors. Further details on the role of the Remuneration and Nomination Committee may be found in its report on page 42.

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

In accordance with corporate governance best practice, all of the Directors will retire and offer themselves for re-election at the next Annual General Meeting. The Board considers that each of the Directors continue to make a valuable contribution to the Board and to demonstrate commitment to the Group.

How the Board operates

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

These include matters relating to:

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

The Board meets at regular intervals and Non-Executive Directors communicate directly with Executive Directors and senior management between formal Board meetings.

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 a Leadership Team composed of the CEO, the CFO and representatives from senior management whose responsibilities are to implement the decisions of the Board and review the key business objectives and status of projects.

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

	Board	Audit Committee	Remuneration and Nomination Committee
Jan Boone	5/5	3/3	1/1
Chris Brewster	5/5	–	–
Chris Cardon	5/5	–	–
Marc Coucke[1]	4/5	–	1/1
Nick Downshire	5/5	3/3	–
James Lambert	5/5	–	1/1
Ed Torr	5/5	3/3	1/1
Jenny Winter[2]	1/1	–	–

1. Marc Coucke was unable to attend one Board meeting due to a conflicting business meeting.

2. Jenny Winter was appointed to the Board on 1st October 2018.

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 and integration
- Presentations from various parts of the business
- Consideration of management structure
- Approval of annual and half year report and financial statements
- Review of budget
- Going concern and cash flow
- Briefing and review of conflicts of interest
- Review of AGM business
- Market Abuse Regulation compliance
- Share Dealing Code
- Investor relations

CORPORATE GOVERNANCE REPORT

Leadership Team

The newly created Leadership Team consist of the Group Function Heads, Country Managers and Executive Directors. The team meets monthly and their responsibilities include tracking financial performance, progress versus integration targets, improving employee engagement and all aspects of the operational leadership of the organisation.

The Board Committees

There are two Board Committees, the Audit Committee and the Remuneration and Nomination 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.

External Advisers

The Board seeks advice on various matters from its nominated adviser, and broker and corporate finance adviser, Panmure Gordon & Co, its lawyers, Squire Patton Boggs and its corporate governance and company secretarial adviser, Prism Cosec.

Development, information and support

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

Board Evaluation

The Board carried out a formal performance evaluation process during the year which was conducted by way of a detailed questionnaire completed by each member of the Board. The aim of the questionnaire was to obtain views on the effectiveness of the Board, its committees and on key governance areas. The responses were collated and reviewed by the Chairman and a summary of the results presented to the Board before its meeting in April.

Initial observations include more regular interaction with the Leadership Team and more opportunity for review of strategy for the long-term success of the Group. Further consideration will be given at the Board meeting in June.

Conflicts of interest

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

Internal controls

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

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

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

- Close management of the day-to-day activities of the Group by the Executive Directors
- An organisational structure with defined levels of responsibility
- Specified investment approval levels and financial authority limits
- An annual budgeting process which is approved by the Board
- Financial controls to ensure that the assets of the Group are safeguarded and that appropriate accounting records are maintained

The Board continues to review the system of internal controls to ensure it is fit for purpose and appropriate for the size and nature of the Company's operations and resources.

Independent Professional Advice

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

Directors' and Officers' Liability Insurance

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

Risk Management

Risks throughout the Group are considered and reviewed 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 26 to 28. 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 and stakeholders

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

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

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

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

During 2018, we conducted our first employee engagement survey, establishing a baseline for future measurement. The score reflects a period of significant change for many employees while we integrate the Group. We are committed to acting on the feedback we received in the survey in 2019.

Annual General Meeting

The Company's Annual General meeting ("AGM") will be held at 11.30 a.m. on Tuesday 25th June 2019 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). Shareholders will have an opportunity to raise questions with the Board at the AGM.

AUDIT COMMITTEE REPORT

"As Chairman of the Audit Committee, I am pleased to present the Audit Committee Report for the year ended 31st December 2018."

Nick Downshire
Chairman of the Audit Committee

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

Members of the Audit Committee

The Committee comprises three independent Non-Executive Directors:

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

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

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

Duties

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

- To monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, trading statements and any other formal announcements relating to its financial performance, reviewing significant financial reporting issues and judgements that they contain
- To review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems to identify, assess, manage and monitor financial risks, including the appropriateness and effectiveness of the risk management framework
- To review the arrangements for whistleblowing enabling its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters
- To consider annually whether the Company's size and activities are such that an internal audit function should be established and, if so, determine its remit and make a recommendation to the Board
- To consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor
- To monitor and review the external auditor's independence and objectivity, taking into account relevant statutory, professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services

- To develop and implement a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant statutory, professional and regulatory requirements on the matter; and
- To report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

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.

Principal Activities during the Year

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

- review of the 2017 financial statements and Annual Report
- consideration of the external audit report and management representation letter
- going concern review
- review of the 2018 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.

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 24 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 recommended to the Board that a resolution to re-appoint PricewaterhouseCoopers LLP as the Group's auditors be proposed at the forthcoming Annual General Meeting.

Audit Process

The external auditor 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.

Internal Audit

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

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.

Share dealing

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

Whistleblowing

The 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

30th April 2019

REMUNERATION AND NOMINATION COMMITTEE REPORT

As Chairman of the Remuneration and Nomination Committee ("the Committee"), I am pleased to present our report which sets out details of the composition, structure and operation of the Committee, our remuneration policy and remuneration paid to Directors during the year.

Members of the Remuneration and Nomination Committee

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

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

James Lambert chaired the Committee during the year under review. At its meeting in February 2019, the Board agreed that Ed Torr would chair the Committee going forwards.

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

The Committee meets at least once a year and at such other times during the year as is necessary to discharge its duties. Although only members of the Committee have the right to attend meetings, other individuals, such as the Chief Executive and external advisers, may be invited to attend for all or part of any meeting.

Duties

The Committee works closely with the Board to formulate remuneration policy and to consider succession plans and possible internal candidates for future Board roles, having regard to the views of shareholders. The main duties of the Committee are set out in its Terms of Reference, which are available on the Company's website (www.animalcaregroup.co.uk) and include the following 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

The Committee led the process to identify and appoint a new Chief Executive Officer. The process consisted of:

- Identifying and agreeing the key skills, experience and attributes of the desired candidate
- Identifying and instructing an executive search agency
- Reviewing the shortlist and arranging first round interviews
- Second round interviews
- Recommending the preferred candidate for appointment

The Committee engaged Odgers Berndtson to conduct the search; they have no other connection with the Company. Odgers Berndtson produced a shortlist of potential candidates. First round interviews with four candidates were conducted by members of the Committee and one candidate was shortlisted for second round interview.

Jenny Winter was identified as the preferred candidate and met separately with the other members of the Board.

The Committee unanimously agreed to recommend to the Board that Jenny Winter be appointed as Chief Executive Officer and she was appointed with effect from 1st October 2018.

The Committee considered and agreed Ms Winter's remuneration package on her appointment.

The Committee also considered:

- Executive Directors' bonuses and salaries
- Performance criteria for the Long Term Incentive Plan ("LTIP") and future awards under the LTIP
- Succession planning
- Re-election of directors at the AGM
- Review of the Committee's terms of reference

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

Diversity

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

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

The Board currently consists of 12.5% (1) female and 87.5% (7) male board members. The Leadership Team consist of 54% (7) male and 46% (6) female members.

DIRECTORS' REMUNERATION REPORT

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

This report covers the financial year ended 31st December 2018.

The Remuneration and Nomination Committee

The Board has delegated certain responsibilities for executive remuneration to the Remuneration and Nomination Committee ("the Committee"). Details of the Committee, its remit and its activities are set out on page 42.

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

Remuneration policy

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

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

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

Executive Directors

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

Base salary

Base salary is reviewed annually by the Committee.

Annual bonus

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

Long Term Incentive Plan

A Long Term Incentive Plan, the Animalcare Group plc Long Term Incentive Plan 2017 ("the LTIP") was approved by the Board in June 2017. A summary of the LTIP was set out in the circular sent to shareholders on 24th June 2017 which is available on the Company's website (www.animalcaregroup.co.uk). No options have been granted under the LTIP as at the date of this report; however, the Committee has considered appropriate performance measures and intends to grant options to Executive Directors and members of the Leadership team under the LTIP during the current financial year. Non-Executive Directors are not eligible to participate in the LTIP.

Other benefits

A range of benefits may be provided including company car allowance, private medical insurance, life assurance, 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.

DIRECTORS' REMUNERATION REPORT

Service agreements and termination payments

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

Director	Date of contract	Unexpired term	Notice period by Company	Notice period by Director
Chris Brewster	24th January 2012	Rolling contract	6 months	6 months
Chris Cardon	23rd June 2017	Rolling contract	12 months	12 months
Jenny Winter	2nd August 2018	Rolling contract	6 months	6 months

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

Iain Menneer resigned as a director of the Company on 26th April 2018 and was placed on gardening leave for his 12 month notice period.

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 FINANCIAL YEAR ENDED 31ST DECEMBER 2018.

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)

£'000		Salary and fees	Annual bonus	Benefits	Pension	Compensation for loss of office	Total
Executive Directors							
Jenny Winter[1]	**2018**	**71**	**–**	**3**	**–**	**–**	**74**
	2017	–	–	–	–	–	–
Chris Brewster	**2018**	**205**	**–**	**12**	**25**	**–**	**242**
	2017	184	46	12	22	–	264
Chris Cardon[2,3,4]	**2018**	**352**	**–**	**7**	**27**	**–**	**386**
	2017	205	–	–	–	–	205
Iain Menneer[5]	**2018**	**32**	**–**	**3**	**28**	**203**	**266**
	2017	282	63	15	34	–	394
Walter Beyers[6]	**2018**	**–**	**–**	**–**	**–**	**–**	**–**
	2017	71	–	–	–	45	116
Non-Executive Directors							
Jan Boone[8]	**2018**	**70**	**–**	**–**	**–**	**–**	**70**
	2017	35	–	–	–	–	35
Marc Coucke[8]	**2018**	**40**	**–**	**–**	**–**	**–**	**40**
	2017	19	–	–	–	–	19
Nick Downshire[7]	**2018**	**40**	**–**	**–**	**–**	**–**	**40**
	2017	43	–	5	–	–	48
James Lambert[7]	**2018**	**40**	**–**	**–**	**–**	**–**	**40**
	2017	55	–	–	–	–	55
Ed Torr[8]	**2018**	**40**	**–**	**–**	**–**	**–**	**40**
	2017	19	–	–	–	–	19
Ray Harding[9]	**2018**	**–**	**–**	**–**	**–**	**–**	**–**
	2017	24	–	–	–	12	36
Total	**2018**	**890**	**–**	**25**	**80**	**203**	**1,198**
	2017	937	109	32	56	57	1,191

1. Jenny Winter was appointed as a director on 1st October 2018. Her annual salary was £285,000.
2. Chris Cardon's salary is paid in euros. From 1st January to 30th September, Mr Cardon's annual salary was €335,000. On his change of role from 1st October 2018, his annual salary was €250,000. Pro rated salary is converted to GBP at the Group 2018 average rate of £1:€1.1304. The 2017 comparative figure includes Mr Cardon's remuneration as a director of the newly formed Group from 13th July 2017.
3. Mr Cardon received a car allowance of £6,000 per annum and life assurance and private medical cover to the value of £3,413 per annum for the period from 1st January to 30th September 2018.
4. Mr Cardon received a salary supplement in lieu of a pension contribution of 12% of salary for the period from 1st January to 30th September 2018.
5. Iain Menneer resigned as a director of the Company on 26th April 2018 and was placed on gardening leave for his 12 month notice period. Compensation for loss of office represents the salary paid to Mr Menneer from 27th April to 31st December 2018 while on gardening leave.
6. Walter 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 to 26th September 2017.
7. Nick Downshire and James Lambert were directors of Animalcare Group plc for the whole of the financial year ended 31st December 2017. Remuneration disclosed for 2017 relates to their remuneration for the 18 months from 1st July 2016 to 31st December 2017.
8. Jan Boone, Marc Coucke and Ed Torr were appointed directors of the newly formed Group from 13th July 2017. Remuneration disclosed for 2017 relates to their remuneration from 13th July 2017 to 31st December 2017.
9. Ray Harding resigned as a director on 13th July 2017.

ANNUAL REMUNERATION REPORT

THIS REPORT COVERS THE FINANCIAL YEAR ENDED 31ST DECEMBER 2018.

Share option schemes

Save As You Earn

During the year, Iain Menneer exercised 5,142 share options granted in 2014 under the Save As You Earn scheme at an option price of £1.05 per share. The value of this exercise to Mr Menneer was £5,399.

8,571 share options granted to Chris Brewster in 2014 under the Save As You Earn scheme lapsed in 2018.

Directors' Interests in the Share Capital of the Company

The Directors' interests in the share capital of the Company as at 31st December 2018 and the movements during the year are set out below:

Director	Number of shares held as at 1 January 2018	Acquired/ (disposed) during the period	**Number of shares held as at 31st December 2018**	**Percentage of ISC as at 31st December 2018**
Jan Boone	50,171	–	**50,171**	**0.08**
Chris Brewster	280,513	–	**280,513**	**0.47**
Chris Cardon	13,857,213	–	**13,857,213**	**23.07**
Marc Coucke	13,857,213	–	**13,857,213**	**23.07**
Nick Downshire	1,031,529	–	**1,031,529**	**1.75**
James Lambert	1,313,691	–	**1,313,691**	**2.19**
Edwin Torr	107,455	–	**107,455**	**0.18**
Jenny Winter[1]	–	–	**–**	**–**

1. Appointed 1st October 2018.

In addition, as at 1st January 2018, Nick Downshire had a non-beneficial interest of 190,446 shares; as at 31st December 2018, he had a non-beneficial interest of 190,446 shares.

Iain Menneer resigned as a director during the year; as at 1st January 2018, he held 601,932 shares in the Company.

There were no changes in the Directors' interests in shares between 31st December 2018 and 30th April 2019.

Ed Torr
Chairman of the Remuneration and Nomination Committee
30th April 2019

DIRECTORS' REPORT

The Directors present the Directors' report, together with the audited Financial Statements of the Group and the Company for the year ended 31st December 2018.

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 in the Chief Financial Officer's review on pages 20 to 24.

Corporate Governance and the Group's financial risk management objectives in the Corporate Governance report on pages 36 to 39.

Details of the salaries, bonuses, benefits and share interests of Directors in the Directors' remuneration report on pages 43 to 46.

Directors' responsibility statements on page 50.

Likely future events and all post-balance sheet events are disclosed within the Strategic report on pages 1 to 28.

Dividend

The Board is recommending a final dividend of 2.4p per share which, subject to shareholder approval at the Company's 2019 AGM, will result in a full year dividend of 4.4p per share (including the interim dividend of 2p per share paid in November 2018). The final dividend will be paid on Friday 5th July 2019 to all shareholders on the register of members at close of business on Friday 7th June 2019.

Directors and Directors' Interests

The names of the current Directors of the Company and their biographical details are shown on pages 30 to 33. Changes to directorships during the reporting period are shown on page 36. Details of Directors' interests in the shares of the Company are shown on page 46. This information is incorporated into this report by reference.

Share capital

The Company's issued share capital as at 31st December 2018 was £12,011,432.20 divided into 60,057,161 ordinary shares of 20 pence each. 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 96.

There have been no changes to the Company's issued share capital between 31st December 2018 and the date of this report.

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

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

Authority for the Company to purchase its own shares

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

At the AGM on 27th June 2018, the Company was generally and unconditionally authorised by its shareholders to make market purchases (within the meaning of section 693 of the Companies Act 2006) of up to a maximum of 6,001,412 of its ordinary shares.
The Company has not repurchased any of its ordinary shares under this authority, which is due to expire on the date of this year's AGM.

DIRECTORS' REPORT

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 £6.2m (2017: £3.9m).

Articles of Association

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

Financial Instruments and Risk Management

Disclosures regarding risk management and financial instruments are provided within the Strategic Report and in note 20 to the Consolidated Financial Statements on page 96.

Directors' Indemnities and Liability Insurance

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

The Group purchases and maintains directors' and officers' liability insurance for the benefit of its Directors, which was in place throughout the year ended 31st December 2018 and remains in place at the date of this report. The Company reviews its level of cover annually.

Political Donations

No political donations were made during the year (2017: £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 26th April 2019:

Name of holder	No. of ordinary shares	% holding
Alychlo NV	13,857,213	23.07
Ecuphar Invest NV	13,857,213	23.07
Liontrust Asset Management	5,359,154	8.92

Relationship Agreement

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

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

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

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

Going Concern

The principal risks and uncertainties facing the Group are set out on pages 26 to 28.

For the purposes of their assessment of the appropriateness of the preparation of the Group's financial statements 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 2018, the Group had cash on hand of £8.0m (31st December 2017: £7.6m).

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 auditors are unaware; and
- The Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

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

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

Annual General Meeting

The Company's Annual General Meeting will be held at 11.30 a.m. on Tuesday 25th June 2019 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 1 to 28 and this Directors' report on pages 47 to 49 were approved by the Board on 30th April 2019.

Approved by the Board and signed on its behalf by

Chris Brewster

Chief Financial Officer and Company Secretary

30th April 2019

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

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

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

Chris Brewster

Chief Financial Officer and Company Secretary

30th April 2019

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF ANIMALCARE GROUP PLC

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2018 and of the group's loss and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company statements of financial position as at 31 December 2018; the consolidated income statement, consolidated statement of comprehensive income, the consolidated and company cash flow statement, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Our audit approach

Overview

- Overall group materiality: £291,000 (2017: £255,000), based on 2.5% of Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) excluding exceptional costs.
- Overall company materiality: £250,000 (2017: £100,000), based on 1% of net assets, limited to less than group materiality.

- We, as the group engagement team, audited the two components based in the UK - being Animalcare Group plc and Animalcare Limited.
- The significant components based overseas, being Ecuphar N.V. and Ecuphar Veterinaria SA, and specified procedures over certain financial statement line items for Ecuphar GmbH, have been audited by PwC component auditors. We were heavily involved at all stages of their audits by virtue of numerous communications throughout the process, including the issuance of detailed audit instructions and review and discussion of audit findings, in particular over our areas of focus.
- As a result of this scoping we obtained coverage over £61.5 million (85%) of the group's external revenues and £11.4 million (96%) of the group's Adjusted EBITDA.

- Risk of impairment to assets- Goodwill, intangible assets and investments (group and company).
- Accounting and disclosures relating to the disposal of the Medini NV business (group).
- 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
Risk of impairment to assets – Goodwill, intangible assets and investments **Group and company** The group has £50.9 million of goodwill and £51.5 million of intangible assets. The parent company has investments of £147.7m. The carrying value of goodwill is assessed by an annual impairment review. Intangible assets at a group level and the investment held by the parent company are reviewed for indicators of impairment and if needed an impairment review performed. No impairment charge has been recorded by management in the current year. The risk we have focused on is that these non-current assets could be overstated and an impairment charge may be required. We focused on this area because the determination of whether or not these non-current assets are impaired involves subjective judgements and estimates about the future results and cash flows of the business. On an annual basis, management calculate the amount of headroom between the value in use of the group's Cash Generating Units ('CGUs') and their carrying value to determine whether there is a potential impairment of the goodwill relating to those CGUs. The value in use of the CGU is dependent on a number of key assumptions which include: • Forecast cash flows for the three years; • A long-term (terminal) growth rate applied beyond the end of the three-year forecast period; and • A discount rate applied to the model. Management consider there to be just one CGU and therefore the same valuation performed is used to support the carrying values of the non-current assets for the group and parent company financial statements, adjusted to remove the parent company costs. See the accounting policies section within the financial statements for disclosure of the related accounting policies, judgements and estimates and Note 9 for detailed goodwill disclosures.	We understood and evaluated management's budgeting and forecasting process. We obtained the group impairment analysis and tested the reasonableness of the key assumptions, including the following: • We tested the mathematical accuracy of the impairment model and agreed the carrying value of non-current assets being assessed for impairment to the balance sheet • We challenged management's calculated group weighted average cost of capital (WACC) used for discounting future cashflows within the impairment model, utilising valuation specialists to assess the cost of capital for the group and comparable organisations. • We traced the forecast financial information within the model to the latest Board approved budget and challenged management to provide support to corroborate trading assumptions, support for capital expenditure and considered the accuracy of previous forecasts. • We performed sensitivity analyses to ascertain the impact of reasonably possible changes in key assumptions and to quantify the downside changes needed before an impairment would be required at the CGU level. We determined that the disclosures made with respect to the sensitivity of the WACC are appropriate.

Key audit matter	How our audit addressed the key audit matter
Accounting and disclosures relating to the disposal of the Medini NV business **Group** During the year the group disposed of its Wholesale business in Europe, Medini NV. We have focused on this area because the consideration received and the net assets disposed of were material. The risk we focused on was that the recognition of losses from discontinued operations to ensure that these have been calculated accurately, all assets and liabilities had been correctly identified and that consideration received, including contingent consideration, which requires management judgement, have been accounted for correctly. Management are required to present discontinued operations separately and we have focused on the completeness and accuracy of these disclosures.	We have understood and evaluated management's assessment of the sale and purchase agreement with the acquirer and undertook the following procedures to test the accounting for the disposal: • Reviewed the sale and purchase agreement; • Confirmed the disposal date in accordance with the signed agreement; • Agreed the closing balance sheet to the underlying accounting records for the business disposed; • Confirmed that all amounts from the business were eliminated from continuing operations and included in discontinued operations; • Agreed the consideration received to the agreement and to cash received, as well as assessed management's judgement in respect of contingent consideration recognized; and • Recalculated the loss on disposal. We determined that the disclosures made with respect to the requirements of IFRS 5 'Non-current assets held for sale and discontinued operations' are appropriate.
Accounting for complex customer arrangements **Group** 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 correct accounting period, and found no instances of amounts recorded in the wrong period.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF ANIMALCARE GROUP PLC

Key audit matter	How our audit addressed the key audit matter
Carrying value of intangibles in relation to New Product Development **Group** 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 was 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: • understood and evaluated the group's accounting policy and confirmed it is consistent with IAS 38 'Intangible assets'; • tested a sample of costs capitalised during the year to confirm that they have been appropriately treated in line with the group's accounting policy; • 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 includes a discounted cash flow analysis over the period the asset is expected to generate income for the group, as well as technical aspects. This has been reviewed to identify indicators for impairment of the related intangible assets with no issues noted; • we have considered whether there are any indicators of impairment present, such as changes to drug formulation or regulation that would impact the recoverability of the capitalised costs with no issues noted; and • determined that the disclosure detailed within note 10 is consistent with the requirements of IAS 38.

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.

Materiality

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

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

	Group financial statements	Company financial statements
Overall materiality	£291,000 (2017: £255,000).	£250,000 (2017: £100,000).
How we determined it	2.5% of Adjusted EBITDA excluding exceptional costs.	1% of net assets, limited to less than group materiality.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, Adjusted EBITDA is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	We believe that net assets is considered to be appropriate as it is not a profit oriented company. The company is a holding company only and therefore net assets is deemed a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £144,000 and £250,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £14,500 (group audit) (2017: £13,000) and £14,500 (company audit) (2017: £13,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF ANIMALCARE GROUP PLC

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 2018 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 set out on page 56, 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

30 April 2019

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31ST DECEMBER 2018

		For the year ended 31st December					
£'000	Notes	**Underlying 2018**	**Non-Underlying (note 5) 2018**	**Total 2018**	Underlying 2017 (Restated)	Non-Underlying (note 5) 2017 (Restated)	Total 2017 (Restated)
Revenue	6	**72,470**	**–**	**72,470**	62,291	–	62,291
Cost of sales	7.1	**(35,131)**	**–**	**(35,131)**	(29,966)	(401)	(30,367)
Gross profit		**37,339**	**–**	**37,339**	32,325	(401)	31,924
Research and development expenses	7.2	**(3,466)**	**(1,296)**	**(4,762)**	(2,048)	(751)	(2,799)
Selling and marketing expenses	7.3	**(12,435)**	**–**	**(12,435)**	(12,592)	–	(12,592)
General and administrative expenses	7.4	**(11,877)**	**(4,789)**	**(16,666)**	(10,214)	(3,591)	(13,805)
Net other operating income/(expenses)	7.5	**43**	**(3,302)**	**(3,259)**	89	(1,801)	(1,713)
Operating profit/(loss)		**9,604**	**(9,387)**	**217**	7,560	(6,544)	1,016
Financial expenses	7.8	**(840)**	**–**	**(840)**	(735)	–	(735)
Financial income	7.9	**266**	**–**	**266**	96	–	96
Profit/(loss) before tax		**9,032**	**(9,387)**	**(357)**	6,922	(6,544)	377
Income tax	7.10	**(2,016)**	**2,151**	**135**	(1,746)	1,454	(292)
Net profit from continuing operations		**7,016**	**(7,236)**	**(222)**	5,176	(5,090)	85
Net profit/(loss) from discontinuing operations	4	**40**	**(816)**	**(776)**	109	(10)	99
Net profit/(loss)		**7,056**	**(8,052)**	**(998)**	5,285	(5,100)	184
Net profit/(loss) attributable to:							
The owners of the parent		**7,058**	**(8,052)**	**(996)**	5,285	(5,100)	184
Non-controlling interest		**(2)**	**–**	**(2)**	–	–	–
Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company:							
Basic earnings per share	8	**11.7p**		**(0.4p)**	12.3p		0.2p
Diluted earnings per share	8	**11.7p**		**(0.4p)**	12.3p		0.2p
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:							
Basic earnings per share	8	**11.8p**		**(1.7p)**	12.6p		0.4p
Diluted earnings per share	8	**11.8p**		**(1.7p)**	12.5p		0.4p

In order to aid understanding of underlying business performance, the Directors have presented underlying results before the effect of exceptional and other items. These exceptional and other items are analysed in detail in note 5 to these financial statements. The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31ST DECEMBER 2018

	For the year ended 31st December	
£'000	**2018**	2017
Net (loss)/profit for the year	**(998)**	184
Other comprehensive income		
Cumulative translation differences*	**165**	664
Other comprehensive income, net of tax	**165**	664
Total comprehensive (expense)/income for the year, net of tax	**(833)**	848
Total comprehensive (expense)/income attributable to:		
The owners of the parent	**(831)**	848
Non-controlling interest	**(2)**	–

* May be reclassified subsequently to profit and loss

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

YEAR ENDED 31ST DECEMBER 2018

£'000	Notes	For the year ended 31st December 2018	2017
Assets			
Non-current assets			
Goodwill	9	**50,937**	51,413
Intangible assets	10	**51,334**	54,037
Property, plant and equipment	11	**477**	825
Deferred tax assets	7.10	**1,699**	1,603
Other financial assets		**59**	72
Other non-current assets	13	**294**	–
Total non-current assets		**104,800**	107,950
Current assets			
Inventories	12	**14,891**	16,795
Trade receivables	13	**13,084**	16,680
Available-for-sale financial assets	20	**–**	464
Other current assets	13	**2,736**	1,934
Cash and cash equivalents	14	**8,035**	7,579
Total current assets		**38,746**	43,452
Total assets		**143,546**	151,402
Liabilities			
Current liabilities			
Borrowings	16	**(648)**	(633)
Trade payables	15	**(11,907)**	(14,128)
Tax payables		**(1,016)**	(1,520)
Accrued charges and deferred income	18	**(2,325)**	(2,116)
Other current liabilities	19	**(3,864)**	(3,201)
Total current liabilities		**(19,760)**	(21,598)
Non-current liabilities			
Borrowings	16	**(30,975)**	(32,854)
Deferred tax liabilities	7.10	**(5,521)**	(6,454)
Deferred income	18	**(617)**	(780)
Provisions	17	**(81)**	(72)
Total non-current liabilities		**(37,194)**	(40,160)
Total Liabilities		**(56,954)**	(61,758)
Net assets		**86,592**	89,644
Equity			
Share capital	21	**12,012**	11,983
Share premium		**132,729**	132,588
Reverse acquisition reserve		**(56,762)**	(56,762)
Accumulated losses		**(4,732)**	(1,347)
Other reserves		**3,345**	3,180
Equity attributable to the owners of the parent		**86,592**	89,642
Non-controlling interest	21	**–**	2
Total equity		**86,592**	89,644

The accompanying notes on page 64 to 101 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 authorised for issue on 30th April 2019. They were signed on their behalf by:

Jennifer Winter
Chief Executive Officer

Chris Brewster
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31ST DECEMBER 2018

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

£'000	Share capital	Share premium	Treasury shares	Accumulated losses	Reverse acquisition reserve	Other reserve	Total	Non-controlling interest	Total equity
	Attributable to the owners of the parents								
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
Cash consideration for Ecuphar	–	–	–	–	–	–	–	–	–
Share-based payments	–	–	–	27	–	–	27	–	27
At 31th December, 2017	**11,983**	**132,588**	**–**	**(1,347)**	**(56,762)**	**3,180**	**89,642**	**2**	**89,644**

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 2018

£'000	Notes	For the year ended 31st December 2018	2017
Operating activities			
Loss/profit before tax from continuing operations		**(357)**	377
Loss/profit before tax from discontinued operations	4	**(776)**	167
Loss/Profit before tax		**(1,133)**	544
Non-cash and operational adjustments			
Depreciation of property, plant and equipment	11	**333**	327
Amortisation of intangible assets	10	**7,965**	6,053
Impairment of intangible assets	10	**852**	–
Impairment of goodwill	9	**456**	–
Share-based payment expense		**12**	27
Loss/(gain) on disposal of property, plant and equipment		**(2)**	2
Loss on disposal of subsidiary	4	**682**	–
Movement allowance for bad debt and inventories		**620**	652
Financial income		**(254)**	(91)
Financial expense		**879**	747
Impact of foreign currencies		**16**	25
Other		**2**	(30)
Movements in working capital			
Increase in trade receivables		**(540)**	(2,079)
Increase in inventories		**(1,207)**	(1,359)
Increase/(decrease) in payables		**904**	(2,115)
Income tax paid		**(2,155)**	(278)
Net cash flow from operating activities		**7,430**	2,425
Investing activities			
Purchase of property, plant and equipment	11	**(213)**	(184)
Purchase of intangible assets	10	**(4,568)**	(2,379)
Proceeds from the sale of property, plant and equipment (net)		**6**	31
Payments to acquire subsidiaries	4	**–**	(33,145)
Cash and cash equivalents acquired under reverse acquisition	4	**–**	6,293
Proceeds from sale of subsidiary	4	**2,403**	–
Sale/(purchase) of available for sale financial investments		**459**	(45)
Net cash flow used in investing activities		**(1,913)**	(29,429)

CONSOLIDATED CASH FLOW STATEMENT CONTINUED

YEAR ENDED 31ST DECEMBER 2018

£'000	Notes	For the year ended 31st December 2018	2017
Financing activities			
Proceeds from loans and borrowings and convertible debt		**–**	8,298
Repayment of loans and borrowings		**(2,257)**	(649)
Receipts from issue of share capital		**170**	29,402
Dividends paid		**(2,401)**	(2,816)
Interest paid		**(637)**	(528)
Other financial expense		**11**	(129)
Net cash flow (used in)/from financing activities		**(5,114)**	33,578
Net increase of cash and cash equivalents		**403**	6,574
Cash and cash equivalents at beginning of year	14	**7,579**	951
Exchange rate differences on cash and cash equivalents		**53**	54
Cash and cash equivalents at end of year	14	**8,035**	7,579

£'000	Notes	For the year ended 31st December 2018	2017
Reconciliation of net cash flow to movement in net debt			
Net increase in cash and cash equivalents in the year		**403**	6,574
Cash flow from decrease/(increase) in debt financing		**2,257**	(7,649)
Foreign exchange differences on cash and borrowings		**(349)**	(1,051)
Movement in net debt in the year		**2,311**	(2,126)
Net debt at the start of the year		**(25,908)**	(23,782)
Debt transferred on sale of subsidiary	4	**9**	–
Net debt at the end of the year		**(23,588)**	(25,908)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 2018

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 within the Directors' Report.

Details of the subsidiaries can be found in note 27.

2. Basis of preparation

The Group financial statements have been prepared and approved by the Directors under the historical cost convention, except for the revaluation of certain financial instruments, in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union "adopted IFRSs") and the Companies Act 2006 as applicable to companies reporting under IFRS. They have also been prepared in accordance with the requirements of the AIM Rules.

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

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise 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.

This is the first set of the Group's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in note 3.

The consolidated financial statements cover the year ended 31st December 2018 and comprise the consolidated results of the Group described in note 1. On 13th July 2017 the Group completed the reverse acquisition of Ecuphar NV ("Ecuphar"). In the comparatives financial statements, for the year ending 31st December 2017, the results of the Group are included as of 13th July 2017. For the period from 1st January 2017 to the date of the reverse acquisition the results of Ecuphar, the substance of the reverse acquisition, are solely shown.

Wholesale divestment 2018

Following the divestment of the Wholesaling business Medini NV registered in Belgium, Legeweg 157i, 8020 Oostkamp on 4th September 2018, 2017 financial information have been restated in accordance with IFRS 5, to show continuing operations separately from discontinued operations. Both continuing and discontinued operations were restated to include elements relating to transactions between entities which were previously eliminated in the consolidation as intra-group.

Reverse acquisition Animalcare Group Plc 2017

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.

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 page 26.

For the purposes of their assessment of the appropriateness of the preparation of the financial statements 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 2018 the Group had cash on hand of £8,035k (2017: £7,579k).

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 financial statements to better understand the elements of trading performance during the year and hence to better assess trends in that performance. Reference can be made to note 5 Non-underlying items and note 6 Segment information.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

YEAR ENDED 31ST DECEMBER 2018

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 had two operating segments: Pharmaceutical and Wholesale. From 2018 onwards, the Group will only report one segment, being Pharmaceuticals, due to the sale of its Wholesaling business.

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 euro. The statement of financial position is translated into GBP at the closing rate on the reporting date and their income statement is translated at the average exchange rate at month-end for the year ended December 2018 (2017: 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.

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 re-measured 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.

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 recognised as an expense in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

YEAR ENDED 31ST DECEMBER 2018

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

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

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

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

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

Intangible assets acquired in a business combination

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

Impairment of non-financial assets

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

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

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

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

Financial liabilities

The Group has financial liabilities measured at amortised cost which include loans and borrowings, trade payables and other payables and financial liabilities resulting from an interest rate swap (classified as held for trading).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

YEAR ENDED 31ST DECEMBER 2018

Share-based payments

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

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

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

Provisions

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

Employee benefits

Short-term employee benefits

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

Management incentive plans

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

Post-employment benefits

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

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

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

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

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

Sales of goods and services

Revenue is recognised when the performance obligation (the promise to transfer a good or service to a customer) is satisfied at a point in time. This is when the control of these goods or services are transferred to the customer, generally on delivery of the goods. The Group recognises service revenue by reference to the stage of completion. Up-front income received in relation to long-term service contracts is deferred and subsequently recognised over the life of the relevant contracts.

Interest income

For all financial instruments measured at amortised cost, interest income would be recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income would be included under financial income in the income statement.

Financing costs
Financing costs relate to interests and other costs incurred by the Group related to the borrowing of funds. Such costs mostly relate to interest charges on short- and long-term borrowings as well as the amortisation of additional costs incurred on the issuance of the related debt. Financing costs are recognised in profit and loss for the 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 standards adopted as of 2018
The Group has initially applied IFRS 15 and IFRS 9 from 1st January 2018. Except for IFRS 15 and IFRS 9, the Group has no transactions that would be affected by the newly effective standards or its accounting policies are already consistent with the new requirements. The Group has not early adopted any other standard. IFRS 15 and IFRS 9 have no material impact on the Group financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

YEAR ENDED 31ST DECEMBER 2018

IFRS 9

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The Group has adopted the new standard on the required effective date. The comparative information has not been restated. 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.

The Group has performed an impact assessment of all three aspects of IFRS 9. There is no significant impact on its balance sheet and equity of applying the impairment requirements of IFRS 9.

A) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments.

Trade and other receivables are held to collect contractual cash flows representing solely payments of principal and interest and are measured at amortised cost.

B) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

The Group has determined that the application of IFRS 9's impairment requirements of the expected credit loss did not have a significant impact on equity. Refer to note 13 on amounts receivable and other non-current assets.

C) Hedge accounting

All existing hedge relationships that are currently designated in effective hedging relationships still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, there was no significant impact on the Group as a result of applying IFRS 9.

IFRS 15

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. 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.

The terms 'contract assets' and 'contract liabilities' used within IFRS 15 are not mandatory to use in the consolidated financial statements. The Group opted to not use these terms in the consolidated financial statements. These balances are described in the notes.

The Group has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1st January 2018). Accordingly, the information presented for 2017 has not been restated. The adoption of IFRS 15 did not have a significant impact on the financial statement of the Group. We refer to our accounting principles on revenue recognition for further information.

New and revised standards not yet adopted

Of those standards that are not yet effective, IFRS 16 is expected to have a material impact on the Group's financial statements in the period of initial application.

IFRS 16 Leases

The Group is required to adopt IFRS 16 Leases from 1st January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements. The actual impacts of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

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

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

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

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

In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Group will include the payments due under the lease in its lease liability.

No significant impact is expected for the Group's finance leases.

The information on the Group's leasing arrangements currently available were reviewed in light of the new lease accounting rules in IFRS 16. The Group estimates that it will recognise right of use assets and lease liabilities of approximately £2.3 million to £3.4 million on 1st January 2019. The Group expects that the net profit after tax will not decrease materially for 2019 as a result of adopting the new rules. Furthermore, the application of IFRS 16 on these commitments will have an estimated positive impact on EBITDA of £1 million to £1.5 million.

The Group plans to apply IFRS 16 initially on 1st January 2019, using the modified retrospective approach with the right-of-use asset equal to the lease liability. Therefore, the comparative information has not been restated.

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

Standards issued but not yet effective

The IFRS accounting standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards and interpretations, if applicable, when they become effective.

- IFRIC 23 Uncertainty over Tax Treatments, effective 1st January 2019.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9), effective 1st January 2019 with the EU.
- IFRS 16, effective 1st January 2019.
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28), effective 1st January 2019 (not yet endorsed by the EU as at 31st December 2018).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19), effective 1st January 2019 (not yet endorsed by the EU as at 31st December 2018).
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards, effective 1st January 2019 (not yet endorsed by the EU as at 31st December 2018).
- Amendments to References to Conceptual Framework in IFRS Standards, effective 1st January 2020 (not yet endorsed by the EU as at 31st December 2018).
- IFRS 17 Insurance Contracts, effective 1 January 2021 (not yet endorsed by the EU as at 31 December 2018).
- Business Combinations (Amendments to the guidance of IFRS 3), effective 1st January 2020 (not yet endorsed by the EU as at 31st December 2018).
- Amendments to the definition of material in IAS 1 and IAS 8, effective 1st January 2019 (not yet endorsed by the EU as at 31st December 2018).

Significant accounting judgments, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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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 generated 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 2018, the Group had £788k (2017: £699k) of tax losses carried forward and other tax credits such as investment tax credits and notional interest deduction. These losses relate to the subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group.

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

Impairment of goodwill

The Group has goodwill for a total amount of £50,937k (2017: £51,413k) which has been subject to an impairment test. The goodwill is tested for impairment based on the Value In Use (VIU). The key assumptions for the VIU calculations are disclosed and further explained in note 9.

Impairment of slow-moving and obsolete inventory

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

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 license 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 the 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 £(56,762)k 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

YEAR ENDED 31ST DECEMBER 2018

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

£'000	Carrying value at acquisition date	Fair value adjustments	Fair value at acquisition date
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			
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, the fair value uplift of the identified intangibles amounted to £30,957k. Deferred tax assets and liabilities respectively were increased by £885k and £(6,843)k.

Disposal of subsidiaries

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

The Group recognised a loss including expenses in relation to the disposal of £682k during the year ending 31st December 2018. This is based on the total consideration of £2,989k and a net asset value of £3,622k, excluding intercompany debt. The Group has received an initial cash consideration of £2,413k including intercompany loan balances due from the Wholesale Division to other Animalcare Group plc companies. A further £362k is payable to the Group on 30th June 2019 in relation to the remaining intercompany balance owed. The balance of approximately £214k is subject to achieving specific revenue targets between 1st July 2019 and 30th June 2020 and payable in July 2020.

In accordance with IFRS 5, the income statement for the 12 months ended 31 December 2017 and 2018 have been restated to show continuing operations separately from discontinued operations. Both continuing and discontinued operations were restated to include elements relating to transactions between entities which were previously eliminated in the consolidation as intra-group. The effect of including these elements is shown as consolidation adjustments.

£'000	**Continuing operations 2018**	**Discontinued operations 2018**	**Consolidation adjustments 2018**	**Total continuing and discontinued operations 2018**
Revenue	**72,470**	**16,572**	**(719)**	**88,323**
Cost of sales	**(35,131)**	**(15,059)**	**689**	**(49,501)**
Gross profit	**37,339**	**1,513**	**(30)**	**38,822**
Research and development expenses	**(4,762)**	**–**	**–**	**(4,762)**
Selling and marketing expenses	**(12,435)**	**(1,111)**	**46**	**(13,500)**
General and administrative expenses	**(16,666)**	**(387)**	**(18)**	**(17,071)**
Net other operating expenses	**(3,259)**	**(762)**	**2**	**(4,019)**
Operating profit/(loss)	**217**	**(746)**	**–**	**(529)**
Financial expenses	**(840)**	**(39)**	**20**	**(859)**
Financial income	**266**	**9**	**(20)**	**255**
Loss before tax	**(357)**	**(776)**	**–**	**(1,133)**
Income tax	**135**	**–**	**–**	**135**
Net loss	**(222)**	**(776)**	**–**	**(998)**

£'000	Continuing operations 2017	Discontinued operations 2017	Consolidation adjustments 2017	As reported last year 2017
Revenue	62,291	23,938	(2,553)	83,676
Cost of sales	(30,367)	(21,523)	2,477	(49,413)
Gross profit	31,924	2,415	(76)	34,263
Research and development expenses	(2,799)	–	–	(2,799)
Selling and marketing expenses	(12,592)	(1,594)	88	(14,098)
General and administrative expenses	(13,805)	(625)	26	(14,404)
Net other operating expenses	(1,713)	(12)	(38)	(1,762)
Operating profit	1,016	184	–	1,200
Financial expenses	(735)	(30)	18	(747)
Financial income	96	13	(18)	91
Profit before tax	377	167	–	544
Income tax	(292)	(68)	–	(360)
Net profit	85	99	–	184

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

£'000	For the year ended 31st December 2018	2017
Net cash flow from operating activities	**133**	107
Net cash flow used in investing activities	**(94)**	(83)
Net cash flow used in financing activities	**(28)**	(30)
Net increase/(decrease) of cash and cash equivalents	**11**	(6)

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

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

5. Non-underlying items

£'000	For the year ended 31st December 2018	2017
Amortisation and impairment of acquisition-related intangibles		
Classified within research and development expenses	**1,296**	751
Classified within general and administrative expenses	**4,789**	3,591
Classified within net other operating expenses	**513**	
Total amortisation and impairment of acquisition-related intangibles	**6,598**	4,342
Fair value uplift of inventory acquired through reverse acquisition		401
Restructuring costs*	**1,235**	
Acquisition and integration costs	**485**	1,454
Impairment on goodwill and intangibles	**796**	
Other non-underlying items	**273**	347
Total non-underlying items before taxes	**9,387**	6,544
Tax impact	**(2,151)**	(1,454)
Total non-underlying items after taxes from continuing operations	**7,236**	5,090
Other non-underlying items from discontinued operations	**134**	10
Loss on disposal	**682**	
Total non-underlying items after taxes	**8,052**	5,100

The amortisation charge of acquisition-related intangibles largely relates to the Esteve acquisition of £2,037k (2017: £2,017k), the Riemser acquisition of £372k (2017: £368k) and the reverse acquisition of Animalcare Group plc of £3,676k (2017: £1,685k, which was the amortisation impact from the acquisition date, 12th July 2017, until 31st December 2017). The impairment charge of acquisition-related intangibles largely relates to an impairment charge of £498k for R&D.

Restructuring costs of £1,235k include £203k in relation to compensation for loss of office in respect of Iain Menneer, as disclosed in the Annual Remuneration Report on page 45 and a further £382k for other senior management.

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

6. Segment information – from continuing operations

For management purposes, the Group was organised into two segments: the Pharmaceuticals and the Wholesale segments. From 2018 onwards, the Group will only report one segment, being Pharmaceuticals, due to the sale of its Wholesale business.

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

The Wholesale segment focused on the sale of veterinary pharmaceuticals, supplies and instruments in the Belgian market and is presented under discontinued operations in the financial information.

The measurement principles used by the Group in preparing this segment reporting are also the basis for segment performance assessment. The Board of Directors of the Group acts as the Chief Operating Decision Maker. As a performance indicator, the Chief Operating Decision Maker controls performance by the Group's revenue, gross margin, Underlying EBITDA and EBITDA. EBITDA is defined by the Group as net profit plus finance expenses, less financial income, plus income taxes and deferred taxes, plus depreciation, amortisation and impairment. Underlying EBITDA equals EBITDA plus non-underlying items.

The following table summarises the segment reporting from continuing operations for each of the reportable periods. 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.

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£'000	Pharma	Wholesale	Total segments	Adjustments and eliminations	Consolidated
For the year ended 31st December 2018					
Revenues	**72,470**	**–**	**72,470**	**–**	**72,470**
Gross margin	**37,339**	**–**	**37,339**	**–**	**37,339**
Gross margin %	**52%**		**52%**		**52%**
Segment underlying EBITDA	**11,798**	**–**	**11,798**	**–**	**11,798**
Segment underlying EBITDA %	**16%**		**16%**		**16%**
Segment EBITDA	**9,805**	**–**	**9,805**	**–**	**9,805**
Segment EBITDA %	**14%**		**14%**		**14%**
For the year ended 31st December 2017					
Revenues	62,291	–	62,291	–	62,291
Gross margin	31,924	–	31,924	–	31,924
Gross margin %	51%		51%		51%
Segment underlying EBITDA	9,698	–	9,698	–	9,698
Segment underlying EBITDA %	16%		16%		16%
Segment EBITDA	7,496	–	7,496	–	7,496
Segment EBITDA %	12%		12%		12%

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

	For the year ended 31st December	
£'000	**2018**	2017
Segment EBITDA	**9,805**	7,496
Depreciation, amortisation and impairment	**(9,588)**	(6,480)
Operating profit	**217**	1,016
Financial expenses	**(840)**	(735)
Financial income	**266**	96
Income taxes	**(869)**	(592)
Deferred taxes	**1,004**	300
Net (loss)/profit	**(222)**	85

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

	For the year ended 31st December	
£'000	**2018**	2017
Belgium	**18,423**	19,691
Spain	**2,127**	2,170
Portugal	**4,122**	4,101
UK	**73,913**	76,010
Other	**4,379**	4,375
Non-current assets excluding deferred tax assets and financial instruments	**102,964**	106,347

Revenue by product category

£'000	For the year ended 31st December 2018	2017
Companion animals	**44,465**	33,670
Production animals	**22,824**	23,680
Horses	**4,618**	4,682
Petfood, Instrumentation and Services	**563**	259
Total	**72,470**	62,291

Revenue by geographical area:

£'000	For the year ended 31st December 2018	2017
Europe	**71,507**	61,424
Belgium	**8,260**	8,781
The Netherlands	**1,719**	1,142
United Kingdom	**16,802**	9,459
Germany	**9,784**	8,907
Spain	**20,706**	20,909
Italy	**4,984**	4,458
Portugal	**4,600**	4,514
European Union – other	**4,652**	3,254
Asia	**558**	471
Middle East and Africa	**139**	45
Other	**266**	351
Total	**72,470**	62,291

Revenue by category:

£'000	For the year ended 31st December 2018	2017
Product sales	**71,025**	62,162
Services sales	**1,445**	129
Total	**72,470**	62,291

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

7. Income and expenses – from continuing operations

7.1 Cost of sales – from continuing operations

Cost of sales includes the following expenses:

£'000	For the year ended 31st December 2018	2017
Purchase of goods and services	**33,840**	29,283
Inventory and other write-downs	**337**	430
Payroll expenses	**222**	340
Other expenses	**732**	314
Total	**35,131**	30,367

7.2 Research and development expenses – from continuing operations

Research and development expenses include the following:

£'000	For the year ended 31st December 2018	2017
Amortisation and depreciation	**1,398**	749
Payroll expenses	**2,025**	1,958
Other R&D expenses	**1,339**	92
Total	**4,762**	2,799

7.3 Selling and marketing expenses – from continuing operations

Selling and marketing expenses include the following:

£'000	For the year ended 31st December 2018	2017
Transport costs of sold goods	**1,031**	854
Promotion costs	**2,160**	2,646
Payroll expenses	**8,516**	8,019
Amortisation and depreciation	**17**	15
Other	**711**	1,058
Total	**12,435**	12,592

7.4 General and administrative expenses – from continuing operations

General and administrative expenses include the following:

£'000	For the year ended 31st December 2018	2017
Amortisation and depreciation	**6,828**	5,552
Payroll expenses	**3,264**	2,581
Other	**6,574**	5,672
Total	**16,666**	13,805

7.5 Net other operating expenses – from continuing operations

The net other operating expenses can be detailed as follows:

	For the year ended 31st December	
£'000	**2018**	2017
Re-invoicing costs	**(24)**	(44)
Gains/losses on disposals of fixed assets	**(1)**	2
Other operating income	**(39)**	(257)
Impairments	**1,308**	35
Other operating expenses	**2,015**	1,977
Total	**3,259**	1,713

The non-cash impairment charge of £1,308k (2017: £35k) primarily relates to impairment of acquired or in-process R&D due to regulatory issues (£852k) and impairment of goodwill in respect of the Orthopaedics business in Benelux which is considered non-core (£456k).

Other operating expenses for 2018 principally relate to restructuring and integration costs. Other operating expenses for 2017 mainly relate to transaction costs in connection with the reverse acquisition of Animalcare Group plc.

7.6 Expenses by nature – from continuing operations

	For the year ended 31st December	
£'000	**2018**	2017
Other operating lease rentals	**1,659**	1,735
Employee expenses	**13,805**	12,557
Depreciation and amortisation	**8,298**	6,306
Transport costs sold goods	**1,031**	854
Promotion costs	**2,160**	2,646
Other operating expense/(income) - note 7.5	**3,259**	1,713
Other expenses	**6,910**	5,098
Total expenses	**37,122**	30,909

7.7 Payroll expenses – from continuing operations

The following table shows the breakdown of payroll expenses for 2018 and 2017:

	For the year ended 31st December	
£'000	**2018**	2017
Wages and salaries	**11,696**	10,795
Social security costs	**2,048**	1,898
Other pension costs	**283**	205
Total	**14,027**	12,898
The monthly average number of employees during the year was as follows:	**279**	265

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Share options:

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

7.8 Financial expenses – from continuing operations

Financial expenses include the following elements:

	For the year ended 31st December	
£'000	**2018**	2017
Interest expense	**637**	527
Foreign currency losses	**119**	111
Other financial expenses	**84**	97
Total	**840**	735

7.9 Financial income – from continuing operations

Financial income includes the following elements:

	For the year ended 31st December	
£'000	**2018**	2017
Foreign currency exchange gains	**192**	64
Other financial income	**74**	32
Total	**266**	96

7.10 Income tax – from continuing operations

Income tax

The following table shows the breakdown of the tax expense for 2018 and 2017:

	For the year ended 31st December	
£'000	**2018**	2017
Current tax charge	**(963)**	(770)
Tax adjustments in respect of previous years	**94**	178
Total current tax charge	**(869)**	(592)
Deferred tax – origination and reversal of temporary differences	**597**	300
Deferred tax – adjustments in respect of previous years	**407**	–
Total deferred tax credit	**1,004**	300
Total tax income/(expense) for the year	**135**	(292)

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

£'000	For the year ended 31st December 2018	2017
(Loss)/profit before tax	**(357)**	377
Tax at 19% (2017: 19.25%)	**68**	(73)
Effect of:		
Overseas tax rates	**(64)**	126
Non-deductible expenses	**(156)**	(201)
Income not subject to tax	**215**	66
Other tax credits and tax deductions	**–**	(1)
Other permanent tax differences	**(133)**	(56)
Other taxes	**(38)**	(37)
Changes in statutory enacted tax rate	**(15)**	(294)
Tax adjustments in respect of previous year	**501**	178
Non-recognition of deferred tax on current year losses	**(195)**	–
Share-based payment deductions	**(48)**	–
Income tax credit/(expense) as reported in the consolidated income statement	**135**	(292)

The tax credit of £2,151k (2017: £1,454k) shown within "non-underlying items" on the face of the consolidated income statement, which forms part of the overall tax credit of £135k (2017, tax charge of £292k), relates to the items in note 5.

The tax rates used for the 2018 and 2017 reconciliation above are the corporate tax rates of 29.58% in 2018 and 33.99% in 2017 (Belgium), 25% (the Netherlands), 30.7% in 2018 and 29% in 2017 (Germany), 33% (France), 25% (Spain), 24% in (Italy), 21% (Portugal) and 19% (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	
£'000	**2018**	2017	**2018**	2017	**2018**	2017
Goodwill	**23**	(7)	**(632)**	(362)	**(609)**	(369)
Intangible assets	**834**	515	**(4,969)**	(6,118)	**(4,135)**	(5,603)
Property, plant and equipment	**45**	28	**(43)**	(25)	**2**	3
Financial fixed assets	**1**	1	**–**	–	**1**	1
Inventory	**3**	51	**(21)**	(24)	**(18)**	27
Trade and other payables/receivables	**3**	297	**43**	–	**46**	297
Accruals and deferred income	**–**	19	**–**	75	**–**	94
Tax losses carried forward	**790**	699	**101**	–	**891**	699
Total	**1,699**	1,603	**(5,521)**	(6,454)	**(3,822)**	(4,851)

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(b) Movements during the year

Movement of deferred taxes during 2018:

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

Movement of deferred taxes during 2017:

£'000	Balance at 1 January 2017	Recognised in income	Disposal of subsidiaries	Acquired through business combinations	Foreign exchange adjustments	Balance at 31st December 2017
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	57	(4)	(76)	3	26
Trade and other payables/receivables	565	(285)	–	–	18	298
Accruals and deferred income	173	(331)	–	247	5	94
Tax losses carry forward and other tax benefits	292	405	(13)	–	15	699
Net deferred tax	1,045	300	(17)	(6,223)	44	(4,851)

Tax losses

The Group has unused tax losses, tax credits and notional interest deduction available in an amount of £3,141k for 2018 (2017: £2,636k).

Deferred tax assets have been recognised on available tax losses carried forward for some legal entities, resulting in amounts recognised of £788k (2017: £699k). 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. The tax losses are expected to be reversed in a period of five years.

8. Earnings per share

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holder of the parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all potential dilutive ordinary shares.

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

Profit/(loss) from continuing and discontinuing operations

	For the year ended 31st December			
£'000	**2018 Underlying**	2017 Underlying	**2018 Total**	2017 Total
Net profit/(loss) from continuing operations	**7,016**	5,175	**(222)**	85
Net profit/(loss) from discontinuing operations	**40**	109	**(774)**	99
Net profit/(loss) attributable to ordinary equity holders of the parent adjusted for the effect of dilution	**7,056**	5,284	**(996)**	184

Average number of shares (basic and diluted)

	For the year ended 31st December			
Number of shares	**2018 Underlying**	2017 Underlying	**2018 Total**	2017 Total
Weighted average number of ordinary shares for basic earnings per share	**60,008,714**	41,998,692	**60,008,714**	41,998,692
Dilutive potential ordinary shares	**5,452**	178,191	**5,452**	178,191
Weighted average number of ordinary shares adjusted for effect of dilution	**60,014,166**	42,176,883	**60,014,166**	42,176,883

Basic earnings/(loss) per share

	For the year ended 31st December			
	2018 Underlying Pence	2017 Underlying Pence	**2018 Total Pence**	2017 Total Pence
From continuing operations attributable to the ordinary equity holders of the Company	**11.7**	12.3	**(0.4)**	0.2
From discontinued operation	**0.1**	0.3	**(1.3)**	0.2
Total basic earnings/(loss) per share attributable to the ordinary equity holders of the Company	**11.8**	12.6	**(1.7)**	0.4

Diluted earnings/(loss) per share

	For the year ended 31st December			
	2018 Underlying Pence	2017 Underlying Pence	**2018 Total Pence**	2017 Total Pence
From continuing operations attributable to the ordinary equity holders of the Company	**11.7**	12.3	**(0.4)**	0.2
From discontinued operation	**0.1**	0.3	**(1.3)**	0.2
Total basic earnings/(loss) per share attributable to the ordinary equity holders of the Company	**11.8**	12.5	**(1.7)**	0.4

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9. Goodwill

On acquisition, goodwill acquired in a business combination is allocated to the cash-generating units which are expected to benefit from that business combination. These cash-generating units correspond to the nature of the business, following the separate divisions Pharmaceuticals and Wholesale. The goodwill has been allocated to the cash-generating units ("CGUs") as follows:

	For the year ended 31st December	
£'000	**2018**	2017
CGU: Pharmaceuticals	**50,937**	50,856
CGU: Wholesale	**–**	557
Total	**50,937**	51,413

The changes in the carrying value of the goodwill can be presented as follows for the years 2018 and 2017:

£'000	**Total**
At 1st January 2017	**9,958**
Additions	41,048
Currency translation	406
At 31st December 2017	**51,413**
Disposals	(106)
Impairment	(456)
Currency translation	86
At 31st December 2018	**50,937**

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

Goodwill allocated to the Pharmaceuticals CGU includes goodwill recognised as a result of past business combinations of Esteve, Equipharma NV, Ecuphar BV, Cardon Pharmaceuticals NV and the reverse acquisition of Animalcare Group plc in 2017. As of 31st December 2018, no goodwill is allocated to the Wholesale CGU following the disposal of Medini NV.

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

	2018	2017
Discount rate (pre-tax)	**10.5**	10.2
Growth rate (in perpetuity) %	**2.0**	2.0

Cash flow forecasts are prepared using the current operating budget approved by the Directors, which covers a three-year period and an appropriate extrapolation of cash flows beyond this. The cash flow forecasts assume revenue and profit growth in line with our strategic priorities.

The Group's impairment review is sensitive to a change in assumptions used, most notably the discount rates and the perpetuity growth rates.

A 1% increase in discount rates would cause the value in use of the CGU to reduce by £14.0m but would not give rise to an impairment. A 1% reduction in perpetuity growth rates would cause the value in use of the CGU to reduce by £12.5m, but would not give rise to an impairment.

The CGU is highly sensitive to any reductions in short-term cash flows, whether driven by lower sales growth, lower operating profits or lower cash conversion. A 15% reduction in total annual cash flows would give rise to an impairment of £0.5m in the CGU. An increase in discount rates of 2.21% or a reduction in perpetuity growth rates of 2.6% would also give rise to an impairment in the CGU of £48k and £235k respectively.

10. Intangible assets

The changes in the carrying value of the intangible assets can be presented as follows for the years 2018 and 2017:

£'000	In process R&D	Patents, distribution rights and licenses	Product portfolios and product development costs	Capitalized software	Total
Acquisition value					
At 1st January 2017	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**
Additions	3,525	1,340	670	452	5,987
Change due to business combinations	–	(29)	(5)	–	(34)
Currency translation	36	104	128	12	280
Other	–	8	–	–	8
At 31st December 2018	**17,079**	**19,108**	**40,668**	**1,181**	**78,036**
Amortisation					
At 1st January 2017	**(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)**
Additions	(1,423)	(2,716)	(3,504)	(322)	(7,965)
Change due to business combinations	–	29	3	–	32
Impairments	(852)	–	–	–	(852)
Currency translation	(10)	(64)	(76)	(6)	(156)
Transfers	–	–	–	(15)	(15)
Other	(10)	20	2	–	12
At 31st December 2018	**(3,536)**	**(7,721)**	**(14,816)**	**(629)**	**(26,702)**
Net carrying value					
At 31st December 2018	**13,543**	**11,387**	**25,852**	**552**	**51,334**
At 31st December 2017	12,277	12,695	28,634	431	54,037

In-process research and development relates to acquired development projects as part of the Esteve business combination in 2015, the reverse acquisition of Animalcare Group plc in 2018 and external and internal in-process R&D costs for which the capitalisation criteria are met. Patents, distribution rights and licences include amounts paid for exclusive distribution rights as well as distribution rights acquired as part of the Esteve business combination in 2015 and the reverse acquisition of Animalcare Group plc in 2018.
Product portfolios and product development costs relate to amounts paid for acquired brands as well as external and internal product development costs capitalised on the development projects in the pipeline for which the capitalisation criteria are met.

The total amortisation charge for 2018 is £7,965k (2017: £6,053k) which is included in the lines cost of sales, research and development expenses, sales and marketing expenses and general and administrative expenses of the consolidated income statement. Included in the total amortisation charge is £ 6.598k (2017: 4,342k) relating to acquisition related intangibles.

In 2018, Animalcare Group plc recorded an impairment charge of £852k (2017: £Nil).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

YEAR ENDED 31ST DECEMBER 2018

11. Property, plant and equipment

The changes in the carrying value of the property, plant and equipment can be presented as follows for 2017 and 2018:

£'000	Equipment	Office furniture and equipment	Finance leases	Leasehold improvements	Total
Acquisition value					
At 1st January 2017	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**
Additions	7	204	–	2	213
Change due to business combinations	(138)	(455)	(62)	(39)	(694)
Disposals	–	(46)	–	–	(46)
Currency translation	2	12	–	3	17
At 31st December 2018	**610**	**1,405**	**–**	**494**	**2,509**
Depreciation					
At 1st January 2017	**(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)**
Depreciation charge for the year	(52)	(218)	(6)	(57)	(333)
Disposals	–	43	–	–	43
Transfers	–	–	–	15	15
Change due to business combinations	114	258	42	36	450
Currency translation	(2)	(9)	–	(2)	(13)
At 31st December 2018	**(507)**	**(1,189)**	**–**	**(336)**	**(2,032)**
Net book value					
At 31st December 2018	**103**	**216**	**–**	**158**	**477**
At 31st December 2017	172	427	26	200	825

The investment in property, plant and equipment in 2018 amounted to £213k (2017: £184k) and mainly related to the acquisitions of IT and office equipment.

The Group realised a net gain on disposals of property, plant and equipment of £2k in 2018 (2017: £nil).

No impairment of property, plant and equipment was recorded.

Finance leases

The carrying value of assets held under finance leases at 31st December 2018 was £nil (2017: £26k). Finance leases mainly related to leased trucks.

Borrowing costs

No borrowing costs were capitalised during the year ended 31st December 2018 or 31st December 2017.

12. Inventories

Inventories include the following:

£'000	For the year ended 31st December 2018	2017
Raw materials	**1,322**	1,062
Goods purchased for resale	**13,569**	15,733
Total inventories (at cost or net realisable value)	**14,891**	16,795

The decrease in inventory is mainly attributable to the sale of the Wholesale business.

The amount of inventory recognised as an expense during 2018 amounts to £33,840k (2017: £29,283k). Inventory write-downs during 2018 amounted to £169k (2017: £620k).

The comparative reported expenses and inventory write-downs for 2017 have been restated to account for the sale of the Wholesale business in 2018.

13. Amounts receivable and other non-current assets

Trade receivables include the following:

£'000	For the year ended 31st December 2018	2017
Trade receivables	**13,163**	16,811
Allowance on trade receivables	**(79)**	(131)
Total	**13,084**	16,680

The Group applied the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables based on historical losses. The Group analysed the impact of IFRS 9 and concluded there is no material impact on the bad debt reserve booked. Trade receivables are non-interest-bearing and are generally on payment terms of between 30 to 90 days.

As at 31st December 2018, trade receivables of an initial value of £79k (2017: £131k) were impaired and fully provided for. The table below shows the changes in the allowance of receivables.

£'000	
At 1st January 2017	**(123)**
Additional impairments	(84)
Change due to business combinations	(14)
Reversal impairment	26
Exchange difference	(5)
Other movement	69
At 31st December 2017	**(131)**
Change due to business combinations	15
Reimbursement of receivables	38
Exchange difference	(1)
At 31st December 2018	**(79)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

YEAR ENDED 31ST DECEMBER 2018

Other current assets include the following:

£'000	For the year ended 31st December 2018	2017
Other receivables	**2,051**	1,118
Deferred charges	**685**	816
Total	**2,736**	1,934

Other current assets amount to £2,736k (2017: £1,934k) at the end of the reporting year and mainly include reclaimable taxes and a receivable resulting from the sale of the Wholesale business. Deferred charges mainly include prepayments totalling £364k (2017: £562k).

£'000	For the year ended 31st December 2018	2017
Other non-current assets	**294**	–

Other non-current assets mainly include a receivable of £214k arising on the sale of the Wholesale business in 2018. The receivable is subject to the acquirer achieving specific revenue targets. (see note 4 – Business combinations and disposals of subsidiaries for more information).

14. Cash and cash equivalents

Cash and cash equivalents include the following:

£'000	For the year ended 31st December 2018	2017
Cash at bank	**8,034**	7,577
Cash equivalents	**1**	2
Total	**8,035**	7,579

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 2018 and 2017.

15. Trade payables

£'000	For the year ended 31st December 2018	2017
Trade payables	**11,907**	14,128
Total	**11,907**	14,128

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

16. Borrowings

The loans and borrowings include the following:

£'000	Interest rate	Maturity	For the year ended 31st December 2018	2017
Other loans	1.56%		**22**	51
Revolving credit facilities	Euribor +1.50%	March 22	**25,513**	26,768
Roll-over investment facility	Euribor +1.50%	March 22	**2,063**	2,676
Acquisition financing	Euribor +1.75%	March 22	**4,025**	3,992
Total loans and borrowings			**31,623**	33,487
of which non-current			**30,975**	32,854
current			**648**	633

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. These 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:

£'000	For the year ended 31st December 2018	2017
Provisions for risks and charges	**81**	72
Total	**81**	72

Provisions for risks and charges amount to £81k as at December 2018 (2017: £72k).

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 2018 and 2017. As a result no further disclosures have been provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

YEAR ENDED 31ST DECEMBER 2018

18. Deferred income and accrued charges

Deferred income and accrued charges consists of the following:

£'000	For the year ended 31st December 2018	2017
Accrued charges	**2,133**	1,868
Deferred income- due within one year	**190**	219
Other	**2**	29
Total due within one year	**2,325**	2,116
Deferred income – due after one year	**617**	780

Accrued charges mainly relate to accrued product development expenses of £1,188k (2017: £757k) and several accrued charges relating to commissions and bonuses in Ecuphar Veterinaria for an amount of £255k (2017: £333k) and £181k for Belphar.

Deferred income are contract liabilities that arise from certain services sold by the Group's subsidiary Animalcare Ltd. In return for a single upfront payment, Animalcare Ltd commits to a fixed term contract to provide certain database, pet reunification and other support services to customers. There is no contractual restriction on the amount of times the customer makes use of the services. At the commencement of the contract, it is not possible to determine how many times the customer will make use of the services, nor does historical evidence provide indications of any future pattern of use. As such, income is recognised evenly over the term of the contract, currently between eight and 14 years.

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

£'000	For the year ended 31st December 2018	2017
Balance at the beginning of the year	**999**	–
Acquired through business combinations	**–**	925
Income deferred to following periods	**139**	181
Release of income deferred from previous periods	**(331)**	(107)
Balance at the end of the year	**807**	999

The deferred income liabilities fall due as follows:

£'000	For the year ended 31st December 2018	2017
Within one year	**190**	219
After one year	**617**	780
Balance at the end of the year	**807**	999

19. Other current liabilities

Other current liabilities include the following:

£'000	For the year ended 31st December 2018	2017
Payroll-related liabilities	**993**	1,229
Indirect taxes payable	**1,083**	1,044
Other current liabilities	**1,788**	928
Total	**3,864**	3,201

Other current liabilities mainly relate to outstanding payables at the year-end for expected contractual payouts under a licence agreement for £1,419k as at 31st December 2018 (2017: £763k).

20. Fair value

Financial assets

The carrying value and fair value of the financial assets for 31st December 2018 and 2017 are presented as follows:

	Carrying value		Fair value	
£'000	**2018**	2017	**2018**	2017
Financial assets measured at fair value				
Assets available for sale at FV through OCI[1]	**–**	464	**–**	464
Loans and receivables measured at amortised cost				
Trade and other receivables (current)	**13,084**	16,680	**13,084**	16,680
Trade and other receivables (non-current)	**294**	–	**294**	–
Other financial assets (non-current)	**59**	72	**59**	72
Other current assets	**2,736**	1,934	**2,736**	1,934
Cash and cash equivalents	**8,035**	7,579	**8,035**	7,579
Total loans and other receivables	**24,208**	26,265	**24,208**	26,265

[1] As per IAS 39 in 2017

The fair value of the financial assets has been determined on the basis of the following methods and assumptions:

- The carrying value of the cash and cash equivalents and the current receivables approximate their fair value due to their short-term character.
- The fair value of the financial assets at fair value through other comprehensive income was derived from market observable data, namely stock and foreign exchange market data (Level 1 inputs). The Group has no financial instruments carried at fair value in the statement of financial position on 31st December 2018 (2017: one investment in a company through publicly listed shares. The fair value of this investment was 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 2018 and 2017.

Financial liabilities

The carrying value and fair value of the financial liabilities for 31st December 2018 and 2017 are presented as follows:

	Carrying value		Fair value	
£'000	**2018**	2017	**2018**	2017
Financial liabilities measured at amortised cost				
Borrowings	**31,622**	33,487	**31,622**	33,487
Trade payables	**11,907**	14,128	**11,907**	14,128
Other liabilities	**7,823**	6,837	**7,823**	6,837
Total financial liabilities measured at amortised cost	**51,352**	54,452	**51,352**	54,452
Total non-current	**30,975**	32,854	**30,975**	32,854
Total current	**20,377**	21,598	**20,377**	21,598

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 2018. In 2017, the Group only had one investment in a company through publicly listed shares. The fair value of this investment was a Level 1 fair value.

21. Equity

Share capital

	For the year ended 31st December	
Number of shares	**2018**	2017
Allotted, called up and fully paid Ordinary Shares of 20p each	**60,057,161**	59,913,900

	For the year ended 31st December	
£'000	**2018**	2017
Allotted, called up and fully paid Ordinary Shares of 20p each	**12,012**	11,983

The following share transactions have taken place during the year ended 31st December 2018:

	For the year ended 31st December	
£'000, except share data	**2018**	2017
At 1st January 2018	**59,913,900**	11,983
Exercise of share options	**143,261**	29
At 31st December 2018	**60,057,161**	12,012

During the year, a total of 143,261 shares were 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. On 13th July 2017, the Group completed the reverse acquisition of Animalcare Group plc. 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.

Dividends

£'000, except share data	For the year ended 31st December **2018**	2017
Ordinary interim dividend for the period ended 30th June 2017 of 4.7p per share	**–**	2,816
Ordinary final dividend paid for the year ended 31st December 2017 of 2.0p per share	**1,200**	–
Ordinary interim dividend paid for the period ended 30th June 2018 of 2.0 per share	**1,201**	–
	2,401	2,816

The proposed final dividend of 2.4 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 2018, in accordance with IAS 10 "Events After the Balance Sheet Date".

Non-controlling interest

The non-controlling interest is £nil at 31st December 2018 (2017: £2k). The decrease to £nil during 2018 is due to the sale of the Wholesale business.

22. Commitments and contingent liabilities

Operating lease commitments

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

£'000	For the year ended 31st December **2018**	2017
Within one year	**1,056**	767
Between two and three years	**1,294**	1,467
Between four and five years	**410**	576
More than five years	**–**	492
Total	**2,760**	3,302

The total operating lease payments recognised in the consolidated income statement in 2018 are £1,659k (2017: £1,735k. This amount has been restated to account for the sale of the Wholesale business in 2018).

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 2018		31st December 2017	
£'000	**Minimum lease payments**	**Present value of payments**	Minimum lease payments	Present value of payments
Within one year	**13**	**13**	27	28
Between two and three years	**9**	**9**	23	24
Total	**22**	**22**	50	52
Less finance charges	**–**	**–**	2	–
Present value of minimum lease payments	**22**	**22**	52	52

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

YEAR ENDED 31ST DECEMBER 2018

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 2018 the Group's maximum exposure to credit risk is £13,084k, which is the amount of the trade receivables in the consolidated financial statements (2017: £16,680k).

To control this risk, the Group has set up a strict credit collection process. Historically, limited 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:

£'000	Total	Non-due	< 30 days	31-60 days	61-90 days	91-180 days	> 181 days
31st December 2018	**13,084**	**10,034**	**2,461**	**344**	**99**	**26**	**120**
31st December 2017	16,680	11,994	3,241	516	418	196	315

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 2018, the Group had the following sources of liquidity available:

- Cash and cash equivalents: £8,035k
- Undrawn credit facilities with four Belgian banks: £11,610k
- Undrawn acquisition financing: £4,920k

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

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

£'000	< 1 year	1 to 3 years	4-5 years	> 5 years	Total
At 31st December 2017					
Borrowings	(633)	(1,307)	(31,547)	–	(33,487)
Trade payables	(14,128)	–	–	–	(14,128)
Other current liabilities	(3,201)	–	–	–	(3,201)
Total	**(17,962)**	**(1,307)**	**(31,547)**	**–**	**(50,816)**

The Group's indebtedness and its restrictions and covenants agreed upon in the financing agreements may adversely affect the Group's liquidity position. Any breach of covenants can lead to loans being immediately due and payable.

The Company has an international cash pool with different banks to limit excess cash. The Company closely monitors cash balances within the Group and uses short-term withdrawals on the credit lines to minimise the cash balances.

Foreign exchange risk

The Group undertakes transactions denominated in foreign currencies which give rise to the risks associated with currency exchange rate fluctuations. Exposures are managed by a combination of matching foreign currency income and expenditure, maintaining foreign currency deposits and the use of forward contracts. The carrying values of the Group's foreign currency assets and liabilities including intercompany balances at the reporting date were:

	For the year ended 31st December			
£'000	**Assets 2018**	Assets 2017	**Liabilities 2018**	Liabilities 2017
EUR/GBP	**380**	670	**2,686**	658
EUR/USD	**–**	–	**77**	155
GBP/USD	**352**	205	**87**	87
EUR/DKK	**–**	–	**7**	–

The cumulative effect of the foreign currency translation effects is reported under other comprehensive income in the statement of financial position and amounts to £3,345k (2017: £3,180k).

At the end of the reporting year, the Group is mainly exposed to the EUR and the USD. The following table details the effect of a 10% 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 2018. A positive number indicates that an increase in profit would arise from a 10% change in value of sterling against these currencies a negative number indicates that a decrease would arise.

£'000	Strengthening	Weakening
Euro	210	(256)
US dollar	(17)	21
DKK	1	(1)

Interest rate risk

The maturity dates and interest rates of the financial debts and liabilities are detailed in note 16. The exposure to interest rate risks is mainly related to existing borrowing facilities. The current loans of credit institutions have variable interest rates. There are no significant differences between the nominal interest rates as listed in note 16 and the effective interest rates of the loans.

If the interest rates would have been 100 bp higher/lower, the financial result would have been £414k lower/higher in 2018 and £330k lower/higher in 2017.

Forward foreign exchange contracts

The Group has nil (2017: two) open foreign exchange contracts at the end of the year.

	For the year ended 31st December	
£'000	**2018**	2017
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 maximise shareholder value. Additionally, minimum solvency ratios are agreed upon in the financing agreements. Capital is defined as the Group shareholder's equity which amounts to £86,592k as at 31st December 2018 (2017: £89,642k).

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 2018 and 2017.

24. Remuneration paid to the Company's auditors

£'000	For the year ended 31st December 2018	2017
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	**34**	19
The audit of the Company's subsidiaries pursuant to legislation	**123**	99
Total audit fees	**157**	118
Tax services	**–**	16
Other services	**13**	144
Total non-audit fees	**13**	160
Total auditors remuneration	**170**	278

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	
in £	Options	Price £	Options	Price £
Outstanding at 1st January 2018	142,500	1,916	199,864	1,567
Lapsed during the year	(25,000)	2,145	(63,457)	2,087
Exercised during the year	(37,500)	1,555	(105,761)	1,050
Open at 31st December 2018	**80,000**	**2,014**	**30,646**	**2,280**
Exercisable at the end of the year	**80,000**	**2,014**	**–**	**–**

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

	EMI Options	SAYE Options
Weighted average share price	191p	195p
Weighted average exercise price	191p	157p
Expected volatility	45%	42%
Expected life	3.0 years	3.1 years
Risk-free rate	**0.5%**	**0.5%**

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

The Company recognised a total charge in respect of share-based payments of £12k (2017: £27k).

26. Related party transactions

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

Transactions between the Company and its subsidiaries, which are related parties, are eliminated in the consolidated financial statements and no information is provided thereon 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 45.

Transactions with shareholders accounted for a total amount of £nil in 2018 (2017: £nil). These amounts were recognised as an expense during the reporting period.

27. Overview of consolidated entities

			% equity interest	
Name	**Country of incorporation**	**Registered address**	**2018**	2017
Ecuphar NV	Belgium	Legeweg 157i, 8020 Oostkamp	**100%**	100%
Medini NV	Belgium	Legeweg 157i, 8020 Oostkamp	**0%**	99.8%
Orthopaedics.be NV	Belgium	Legeweg 157i, 8020 Oostkamp	**100%**	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%
Ecuphar Italia	Italy	Viale Francesco Restelli, 3/7, piano 1, 20124 Milano	**100%**	100%
Belphar	Portugal	R. Carlos Alberto da Mota Pinto, Nº 17- 3ºA, 1070-313 Lisabon	**100%**	100%
Animalcare Group plc	United Kingdom	Unit 7, 10 Great North Way, York Business Park, Nether Poppleton, York YO26 6RB	**100%**	100%
Animalcare Ltd	United Kingdom	Unit 7, 10 Great North Way, York Business Park, Nether Poppleton, York YO26 6RB	**100%**	100%

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31ST DECEMBER 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Investments in subsidiary companies	6	**147,743**	147,743
Deferred tax asset	10	**7**	12
		147,750	147,755
Current assets			
Trade and other receivables	7	**997**	635
Cash and cash equivalents	8	**1,411**	2,109
		2,408	2,744
Total assets		**150,158**	150,499
Current liabilities			
Trade and other payables	9	**(4,096)**	(3,684)
		(4,096)	(3,684)
Net current liabilities		**(1,688)**	(940)
Total liabilities		**(4,096)**	(3,684)
Net assets		**146,062**	146,815
Capital and reserves			
Called-up share capital	11	**12,012**	11,983
Share premium account	11	**132,729**	132,588
Retained earnings	11	**1,321**	2,244
Equity attributable to equity holders of the parent		**146,062**	146,815

The financial statements of Animalcare Group Plc, registered number 1058025, were approved by the Board of Directors and authorised for issue on 30th April 2019. They were signed on their behalf by:

Jennifer Winter
Chief Executive Officer

Chris Brewster
Chief Financial Officer

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

YEAR ENDED 31ST DECEMBER 2018

	Note	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
Balance at 1st July 2017		4,212	6,506	443	11,161
Total comprehensive loss for the period		–	–	6,028	6,028
Transactions with owners of the Company, recognised in equity:					
Dividends paid		–	–	(4,237)	(4,237)
Issue of share capital net of issue costs		1,714	27,068	–	28,782
Consideration shares		5,750	94,880		100,630
Exercise of share options		307	4,134		4,441
Share-based payments		–	–	10	10
Balance at 1st January 2018		11,983	132,588	2,244	146,815
Total comprehensive profit for the period	3	–	–	1,478	1,478
Transactions with owners of the Company, recognised in equity:					
Dividends paid	5	–	–	(2,401)	(2,401)
Exercise of share options	11	29	141	–	169
Share-based payments	12	–	–	1	1
Balance at 31 December 2018		**12,012**	**132,729**	**1,321**	**146,062**

COMPANY CASH FLOW STATEMENT

PERIOD ENDED 31ST DECEMBER 2018

	Note	Year ended 31st December 2018 £'000	18 month period ended 31st December 2017 £'000
Comprehensive income for the year/period before tax		**1,109**	5,608
Adjustments for:			
Amortisation of intangible assets	3	**–**	4
Finance income		**(5)**	(4)
Share-based payment expense	12	**1**	10
Operating cash flows before movements in working capital		**1,105**	5,618
Decrease/(increase) in receivables	7	**13**	(8)
Increase/(decrease) in payables	9	**411**	(1,315)
Cash generated by operations		**1,529**	4,295
Net cash flow from operating activities		**1,529**	4,295
Investing activities:			
Payments to acquire subsidiaries	6	**–**	(33,145)
Disposal of subsidiaries	6	**–**	4,000
Interest received		**5**	4
Net cash generated by/(used in) investing activities		**5**	(29,141)
Financing:			
Receipts from issue of share capital	11	**169**	29,616
Equity dividends paid	5	**(2,401)**	(4,237)
Net cash generated by/(used in) financing activities		**(2,232)**	25,379
Net (decrease)/increase in cash and cash equivalents		**(698)**	533
Cash and cash equivalents at start of year		**2,109**	1,576
Cash and cash equivalents at end of year		**1,411**	2,109
Comprising:			
Cash and cash equivalents	8	**1,411**	2,109

NOTES TO FINANCIAL STATEMENTS

PERIOD ENDED 31ST DECEMBER 2018

1. Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the Company.

Basis of preparation

The Company financial statements cover the period of 12 months from 1st January 2018 to 31st December 2018.

The financial statements have been prepared and approved by the Directors under the historical cost convention, except for the revaluation of certain financial instruments, in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("adopted IFRSs") and the Companies Act 2006 as applicable to companies reporting under IFRS. They have also been prepared in accordance with the requirements of the AIM Rules.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present a separate Profit and Loss account in these separate financial statements. The profit dealt with in the financial statements of the Company was £1,478k (2017: £6,028k).

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. 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.

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.

NOTES TO FINANCIAL STATEMENTS

PERIOD ENDED 31ST DECEMBER 2018

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits repayable on demand, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Finance income and expense

Finance income comprises interest receivable on funds invested that are recognised in the income statement.

New and revised standards not yet adopted

The Company has not applied the following new standards and amendments to standards which are EU endorsed but not yet effective:

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments

Both IFRS 16 and IFRIC 23 are effective for annual periods beginning on or after 1st January 2019. Neither are expected to have an impact on the Company.

2. Non-recurring items

	Note	**2018 £'000**	2017 £'000
Professional and other fees relating to the reverse acquisition		**–**	2,791
Legal fees relating to Director resignation		**–**	17
Reorganisation and integration costs		**218**	93
Compensation for loss of office	4	**203**	12
Total exceptional and other items		**421**	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.

Reorganisation and integration costs totalling £218k mainly relate to exceptional recruitment costs in respect of Jenny Winter, CEO, and tax structuring advice as the Group continues to seek to optimise its tax position going forward.

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

3. Total comprehensive income for the year/period

	2018 £'000	2017 £'000
Total comprehensive income for the year/period has been arrived at after charging/(crediting):		
Amortisation of intangible assets	–	4
Finance income	(5)	(4)
Dividend income received from subsidiary – Animalcare Ltd	–	7,789
Dividend income received from subsidiary – Ecuphar NV	2,247	1,789

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

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

	2018 £'000	2017 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	34	19
Total audit fees	**34**	19

4. Directors' remuneration and interests

Emoluments

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

Period ended 31st December 2018	Salary £'000	Bonus £'000	Company pension contributions £'000	Benefits £'000	Compensation for loss of office £'000	Total £'000
J Boone*	70	–	–	–	–	70
C Brewster	205	–	22	12	–	239
C Cardon	35	–	–	–	–	35
M Coucke*	40	–	–	–	–	40
N Downshire*	40	–	–	–	–	40
J S Lambert*	40	–	–	–	–	40
I D Menneer (resigned 26th April 2018)[1]	32	–	28	3	203	266
E Torr*	40	–	–	–	–	40
J Winter (Appointed 1st October 2018)	71	–	–	3	–	74
Total	**573**	**–**	**50**	**18**	**203**	**844**

* Indicates Non-Executive Directors

1 I D Menneer resigned as a director of the Company on 26th April 2018 and was placed on gardening leave for his 12 months' notice period. Compensation for loss of office represents the salary paid to Mr Menneer from 27th April 2018 to 31st December 2018 while on gardening leave

NOTES TO FINANCIAL STATEMENTS

PERIOD ENDED 31ST DECEMBER 2018

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[2]	11	–	–	–	–	11
J Boone*	35	–	–	–	–	35
C Brewster[3]	184	46	22	12	–	264
C Cardon	16	–	–	–	–	16
M Coucke*	19	–	–	–	–	19
N 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*	19	–	–	–	–	19
Total	**688**	**109**	**56**	**32**	**12**	**897**

* Indicates Non-Executive Directors.

2 W Beyers was appointed 13th July 2017 and resigned 26th September 2017

3 C Brewster resigned 12th July 2017 and was appointed 26th September 2017

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

Share options

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

5. Dividends

	2018 £'000	2017 £'000
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
Ordinary final dividend paid for the period ended 31st December 2017 of 2.0p per share	**1,200**	–
Ordinary interim dividend paid for the period ended 30th June 2018 of 2.0 per share	**1,201**	–
	2,401	4,237

The proposed final dividend of 2.4 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 2018, in accordance with IAS 10 Events After the Balance Sheet Date.

6. Investments in subsidiaries

Subsidiary undertakings

Cost	2018 £'000
At 1st January 2018 and 31st December 2018	**147,743**

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

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

7. Other financial assets

Trade and other receivables

	2018 £'000	2017 £'000
Corporation tax – Group relief	**979**	604
Other receivables	**3**	7
Prepayments and accrued income	**15**	24
	997	635

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

NOTES TO FINANCIAL STATEMENTS

PERIOD ENDED 31ST DECEMBER 2018

8. Cash and cash equivalents

	2018 £'000	2017 £'000
Cash and cash equivalents	**1,411**	2,109

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

9. Other financial liabilities

	2018 £'000	2017 £'000
Trade payables	**255**	277
Amounts payable to subsidiaries	**3,396**	2,793
Other taxes and social security costs	**82**	295
Other creditors	**328**	27
Accruals	**35**	292
	4,096	3,684

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

10. Deferred tax

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

	Accelerated tax depreciation £'000	Share-based payments £'000	Other £'000	Total £'000
Balance at 1st July 2016	(7)	(96)	(2)	(105)
Charge/(credit) to income	2	91	–	93
Balance at 31st December 2017	(5)	(5)	(2)	(12)
Charge/(credit) to income	–	5	–	–
At 31st December 2018	**(5)**	**–**	**(2)**	**(7)**

Deferred tax balances have been calculated at an effective rate of 17%, being the substantively enacted rate at 31st December 2018.

11. Share capital

	No.	£'000
Allotted, called up and fully paid at 1st January 2018	59,913,900	11,983
Exercise of share options	143,261	29
Allotted, called up and fully paid at 31st December 2018	**60,057,161**	**12,011**

Exercise of share options was under the Save As You Earn (SAYE) scheme referred to in note 12.

12. Share-based payments

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

Animalcare Group plc Executive Share Option Scheme

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

SAYE Option Scheme

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

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

	EMI		SAYE	
	Options	Price £	Options	Price £
Outstanding at 1st January 2018	142,500	1.916	199 684	1.567
Granted during the period	–	–	–	–
Lapsed during the year	(25,000)	2.145	(63,457)	2.087
Exercised during the period	(37,500)	1.555	(105,761)	1.050
Open at 31st December 2018	**80,000**	**2.014**	**30,466**	**2.280**
Exercisable at the end of the year	**80,000**	**2.014**	**–**	**–**

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

	EMI Scheme	SAYE Scheme
Weighted average share price	191p	195p
Weighted average exercise price	191p	157p
Expected volatility	45%	42%
Expected life	3.0 years	3.1 years
Risk-free rate	0.5%	0.5%

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

The Company recognised a total charge in respect of share-based payments of £1,000 (2017: £10,200).

13. Related party transactions

Trading transactions

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

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

2017	Ecuphar NV £'000	Animalcare Ltd £'000	Total £'000
Management charges levied	–	120	120

Remuneration of key management personnel

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

SHAREHOLDER NOTES

ADVISERS

Directors	C Cardon C J Brewster E Torr J Boone J S Lambert J Winter 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	Link Asset Services 34 Beckenham Road Beckenham Kent BR3 4TU

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