Animalcare GROUP

Annual Report
for the year ended 31 December 2020

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

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

Why Animalcare?

Well positioned in attractive markets: The market for animal pharmaceuticals has enjoyed robust global growth in recent years. While the Production Animals segment continues to benefit from increasing demand for protein, Companion Animals is growing at a faster rate, largely driven by higher levels of pet ownership and a greater willingness to spend on health and wellbeing. We derive around 70% of Group revenues from Companion Animals and Equine. Consequently, Animalcare is structurally well positioned to benefit from this fast-growing market with strong long-term fundamentals.

Pipeline of novel products: We have shifted our R&D and business development focus from branded generics to novel, differentiated products with higher margin and growth potential. Daxocox, our new COX 2 inhibitor pain product for dogs, was recommended for approval in February 2021 and should receive EU marketing authorisation in early Q2 2021. In 2020, we in-licensed two novel Companion Animal products from Kane Biotech as well as establishing a joint venture for the development of future products. Animalcare plans to launch both products in the second half of 2021.

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

Our values and behaviours

One team

- Trusts and supports colleagues to deliver shared goals across functionally and across countries
- Listens first and respects diversity and opinions of others
- Puts "we" before "me"

Integrity

- Does the right thing even when faced with opposition and challenge
- Gives and keeps commitments
- Is objective, honest and respectful to others in every situation

Passion

- Is enthusiastic and energetic with a winning mindset
- Is self-motivated and inspires others
- Strives to make a difference and embraces change

Taking ownership

- Gets the job done
- Takes pride in the outcome of their work
- Takes responsibility in all situations

Highlights

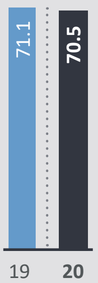
Financial highlights

Resilient trading performance and continuing strong financial position

Revenue

£70.5m

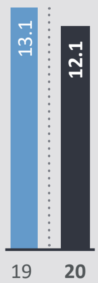
↓ 0.9%



Underlying* EBITDA

£12.1m

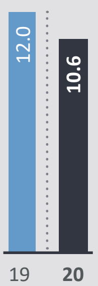
↓ 8.0%



Underlying* EPS

10.6p

↓ 11.7%

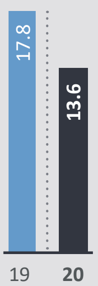


Net debt

£13.6m

↓ £4.2m

Net debt: underlying EBITDA leverage ratio at 1.1 times



Strategic and operational highlights

- **Creation of STEM Animal Health Inc., joint venture with Kane Biotech Inc. to commercialise and develop biofilm-targeting treatments**
- **Internal pipeline on track to deliver with Daxocox (enflicoxib) receiving positive opinion from Europe's CVMP in February 2021**
- **Significant progress in rebalancing, refocusing and defragmenting of product portfolio**
- **New organisation structure implemented to support delivery of growth strategy**
- **11% improvement in employee engagement levels measured in annual Gallup survey**
- **Investment in sales and marketing excellence in advance of Daxocox and STEM launches in H2 2021**

*** A reconciliation of underlying to reported results can be found on page 24.**

Contents

What we do

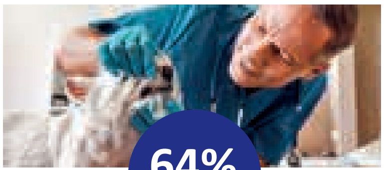
What we do

1. We develop and commercialise trusted prescription and over-the-counter pharmaceutical products that improve animal health and wellbeing. These are developed in-house, acquired from other companies or in-licensed from our partners.
2. We manufacture to high quality standards through a network of CMO partners.
3. We manage an extensive international supply chain, including specialist veterinary wholesalers and distributors.
4. We partner with companies to commercialise products across Europe.
5. We sell products to veterinary practices and veterinary groups through our own highly skilled sales force.

Our market segments

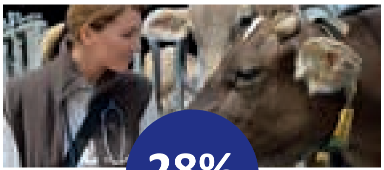
We operate in three categories within the veterinary market: Companion Animals, Equine and Production Animals. Over the long term, we believe that the biggest growth opportunities for the Group lie in Companion Animals and Equine. For Production Animals, we aim to maintain our important presence in our chosen markets. These priorities are mirrored in our R&D and business development targets.

We focus our people and product investment on three main therapy areas: pain management, dermatology and non-antibiotic anti-infectives.



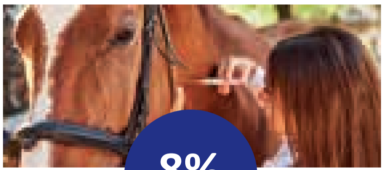
64% total revenues

Companion Animals



28% total revenues

Production Animals



8% total revenues

Equine

Our product portfolio

1 Introduce new differentiated products

Our R&D and business development focus has shifted from branded generics to novel, differentiated and more sustainable products with higher margin and growth potential. As a consequence, we expect the percentage contribution from this category of our overall portfolio to grow over time.

We intend to increase investment in our pipeline in 2021 compared to the prior year.

2 Maintain the competitiveness of our existing portfolio

Cash generated by our base portfolio supports investment in growth opportunities, including differentiated products. To reinforce and improve the quality of our base portfolio we are continuing to reduce the number of smaller “tail” lower value brands so we can concentrate our commercial resources on bigger products with better growth prospects and higher margins.

Revenues generated by the top 40 products grew by 3.2% in 2020.

In 2017, the portfolio consisted of about 330 brands. In 2020 it was around 200 brands. By 2025 we have committed to maintain or grow revenues from our base while reducing the number of brands to approximately 150.

Our geographic presence

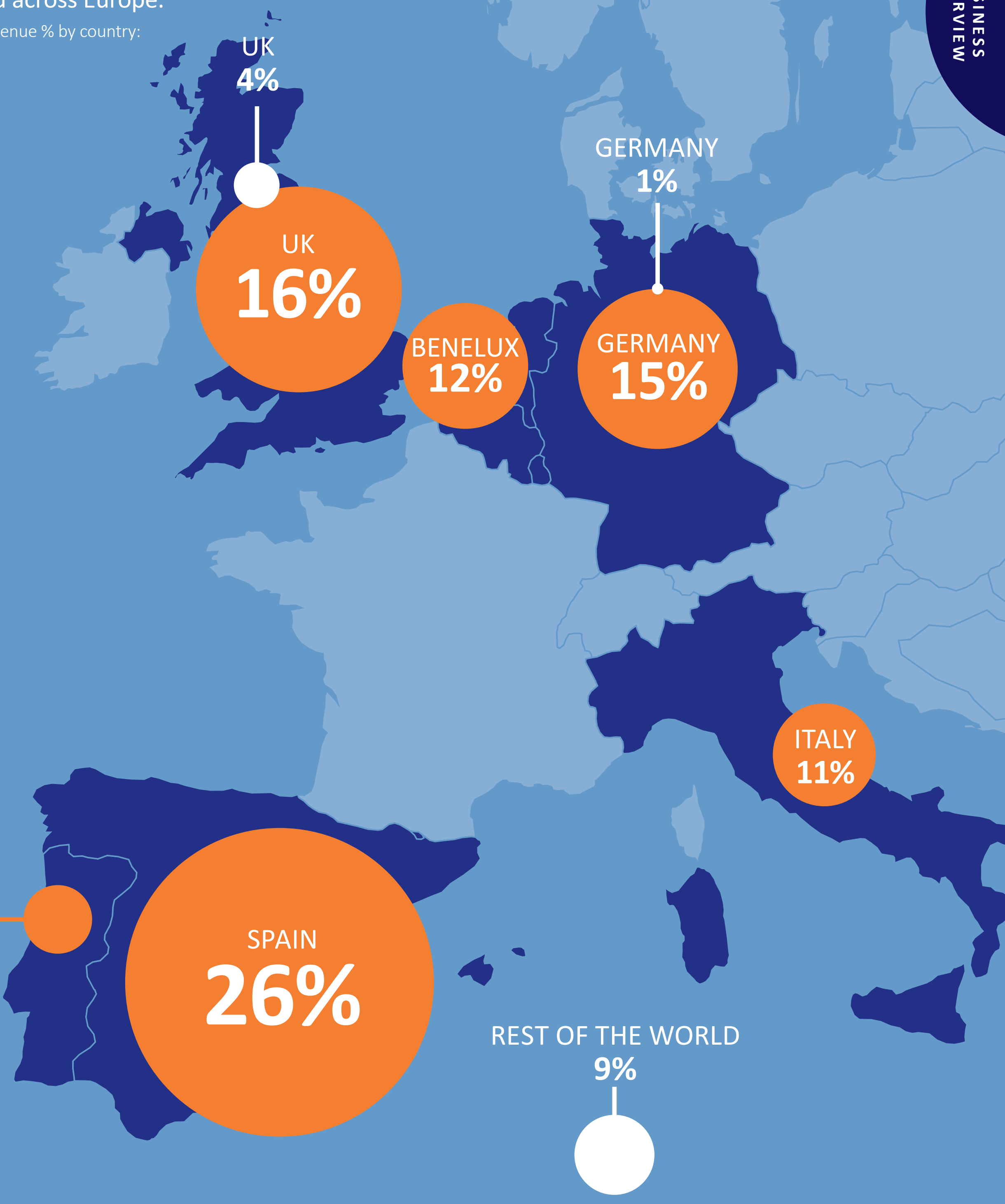
We have a direct commercial presence in seven European countries and export to around 40 countries in Europe and worldwide. Animalcare is also a partner for companies looking to sell products into and across Europe.

This map depicts the revenue % by country:

86%
Our operations

14%
Our network partners

Key: Animalcare



Chairman's Statement

Jan Boone
Non-Executive Chairman

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

Read more about **WHAT WE DO** on page **2**

Read more about **OUR STRATEGY** on page **10**

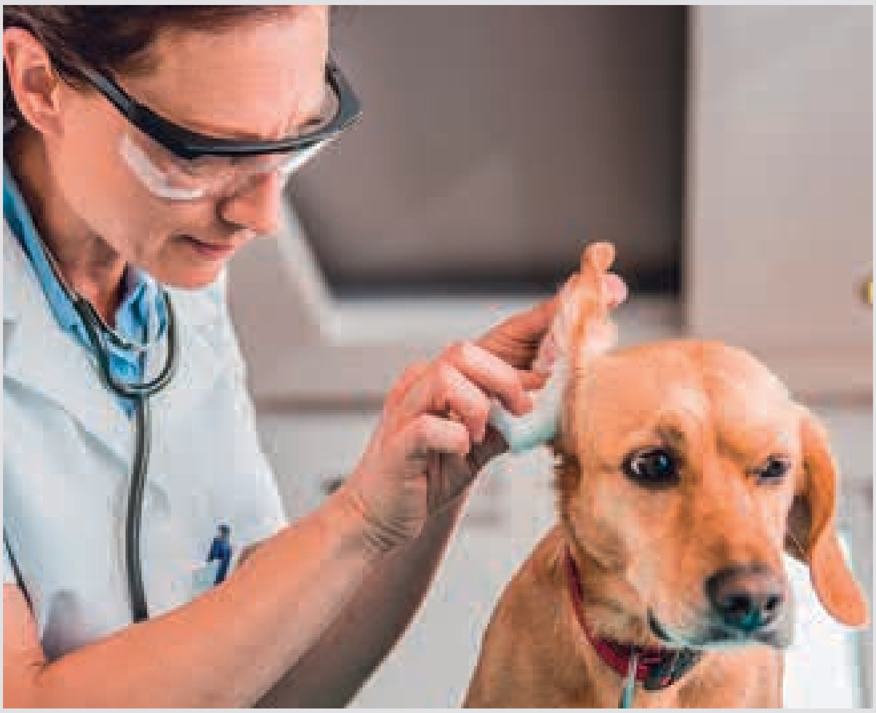
By any measure, 2020 was an extraordinarily challenging year. For Animalcare it was also a year of significant achievement and strategic progress.

The resilience we demonstrated over the last 12 months has further strengthened our financial position, enabling us to continue the pursuit of our long-term growth strategy. While I would not claim that Animalcare has been immune to the pandemic, it's fair to say that the agility of our organisation and the decisive actions taken by our management team have enabled us to resist its worst effects.

While our revenues and Underlying EBITDA were affected by disruption to our markets it's satisfying to report that our performance more than lived up to market expectations. In the second half of the year, when COVID-19 re-emerged across our markets, we grew our sales by 3.0% compared to the previous period. After underlying adjustments totalling £7.8m (2019: £10.8m) the profit before tax on a reported basis was £0.2m (2019: £1.6m loss before tax).

Transforming profit into cash has long been a priority for the Group so it was pleasing to see our cash conversion rate improve over the course of the year. The average conversion rate for 2019 and 2020 combined was above 100%, evidence of our ability to generate strong and sustained levels of cash. This improvement in cash generation was the main contributor to a further reduction in our net debt. At the year-end our net debt stood at £13.6m, down 24% compared to £17.8m as at 31 December 2019. And by 28 February 2021 it had been reduced to £12.9m.

The Group's resilient trading, strong financial position and our confident outlook have supported the Board's decision to propose a final dividend of 2.0 pence per share (2019: Nil pence per share).



Our 2020 performance stands out because we achieved it during a period of real uncertainty where our concern for the safety of our people and the communities around us required different ways of thinking and working. This agility allowed our employees to adapt to the rapidly evolving operational and therapeutic needs of veterinary practices, continuing to add value to our customers who themselves were often operating in uncharted territory. We were also able to flex our cost base, reviewing our capex priorities and making decisive changes to SG&A spend during the first half while continuing to invest in our people, our pipeline and business development opportunities.

Structurally, the diversity of our business came to the fore in 2020. Our balanced geographical footprint and significant presence in the Production Animals segment, which was less affected by the pandemic than Companion Animals, benefited our overall trading performance.

The strong platform we have built in recent years provided us with the capacity to pursue business development opportunities during 2020 and equips us with the full range of appropriate funding options into the future. In September we finalised a deal with Canada-based Kane Biotech to create STEM Animal Health Inc., a joint venture to exploit the potential of biofilm-targeting anti-infective technology. Animalcare will commercialise existing STEM products in markets outside the Americas while working together to develop new treatments. The agreement gives us access to attractive biofilm products today and influence over products of the future.

It has been an important period for our internal pipeline too. E-6087 – now known as Daxocox – is a novel and differentiated COX-2 inhibitor for the treatment of chronic pain in dogs. The February 2021 positive opinion from the Committee for Veterinary Medicinal Products is a significant milestone for the Group and represents many years of hard work and investment. We are confident that Daxocox will be a significant new treatment option for vets. It also has the potential to lift the Group into a high-value and fast-growing segment of the animal health market. Subject to final EU approval, we plan to launch Daxocox across our markets early in the second half of 2021.

As you read this year's annual report I hope you notice our new branding which we unveiled in March 2021. The redesign of our visual identity creates a consistent family look and feel across the Group and better supports our strategic growth ambitions over the coming years.

Looking ahead, it's evident that the economic and operational uncertainty that prevailed in 2020 will remain a feature in 2021. However, we expect that mass vaccination, combined with the lessons learned by veterinary practices and the adaptations made by Animalcare, will support a recovery in our markets. Over the longer term, the attractive fundamentals of the animal health sector and the strong position of the Group give us the confidence to continue investing in growth opportunities.

On behalf of the Board, I'd like to thank our employees for their exceptional performance during these challenging times. And thank you to all our shareholders for your continued support.

Jan Boone,
Non-Executive Chairman

Net debt:
£13.6m
(Down 24% compared to £17.8m as of 31 December 2019)

Final dividend:
2.0p per share
(2019: Nil pence per share)

Our Marketplace

We monitor the market trends to understand the opportunities for Animalcare. We are focused on therapeutic areas with good growth potential and where we have expertise, such as pain management, dermatology and anti-infectives.

Macroeconomic trends

Trend	What's happening?	What this means for Animalcare	How we are responding
Lasting effect of COVID-19 on operation of veterinary practices, suppliers and distributors across Europe	As a result of national lockdowns, many stakeholders are working from home to reduce the spread of the virus.	Veterinary practices, suppliers, distributors and stakeholders are unable to operate normally, causing a breakdown in the supply chain therefore slowing down products to market.	Review of operations to capitalise on the accelerated transition to digital working by veterinary practices, suppliers, distributors and stakeholders. **Link to strategic priority:**
The market for animal health continues to grow	Against a backdrop of declining GDP in all major economic countries, the animal health sector continued to expand with estimated growth rates of between 0.5% and 4.5%.	A stable and robust veterinary market provides confidence to invest in new products and technology.	Investment in new product launches, including Daxocox, and for development projects in high growth areas such as dental, dermatology and disease prevention. **Link to strategic priority:**
Customers are consolidating	Established corporate vet practices are expanding across Europe. Consolidation is also seen among wholesalers who are also offering additional services.	Fewer and larger veterinary practices in key markets with specific demands.	Review of country commercial operations to leverage our European presence and ensure relevant support for all customers. **Link to strategic priority:**
Increasing focus on health and wellbeing; new technologies prolonging and increasing quality of life	Owners spending more time with their pets during the pandemic thus becoming more aware of pet health. Improved medication and veterinary care are helping animals live longer.	We are well placed with an attractive veterinary product mix for surgery, geriatric pets and wellbeing.	Increased focus on wellbeing and preventative brands related to the growing Companion Animal dental and gastro-intestinal markets. **Link to strategic priority:**
Increase in diagnostic and digital technology	COVID-19 has sped up adoption of digital technologies; at least five major industry initiatives in telemedicine gained pace in 2020. Remote diagnostics and online supply of veterinary medicines using vet-to-owner or alternative channels of supply for all classes of medicines.	Diagnostics improve accuracy and speed of diagnosis while telemedicine increases availability of veterinary support. Increased adoption of technology by both vets and pet owners.	Review of our identicare pet reunification business to maximise the potential of our database and direct communication with pet owners. **Link to strategic priority:**
Changes in the use of antibiotics	Sales of antimicrobials have decreased by over a third between 2011 and 2019 in Europe with this trend expected to continue due to the focus on drug resistance.	Decreasing demand for antibiotics in the Animalcare portfolio, especially in Production Animals.	Increase focus on prevention and new technologies including Procanicare for gut health and investment in biofilm-targeting technology through STEM joint venture. **Link to strategic priority:**
Competitive landscape	Continued consolidation of big animal pharma, increase in number of companies selling generic products and the move to white label for veterinary corporates.	Pricing pressure in traditional non-differentiated generic market.	Investment in business development to support move to novel and differentiated products and focus on niche segments such as dental. **Link to strategic priority:**

Strategic priority

Strong finances · Key leadership · Growth portfolio · Business development · Innovative pipeline

Therapeutic markets

Pain management

The global market for animal pain control products is estimated to be approximately $700m-$750m and comprises three key segments: acute pain control, chronic pain control and acute/chronic pain control combined. The acute/chronic segment accounts for around 60% of the market while the remaining 40% is equally split between chronic and acute only products.

The pain product market is forecast to grow by 7%, above the animal health average of 5%. The single largest category in this segment is Non-Steroidal Anti-Inflammatory Drugs (NSAIDs) with a mix of generics and newer, more innovative, patent protected products. The recent registration in Europe of Nerve Growth Factors (NGF1) inhibiting monoclonal antibody therapies for dogs and cats is a notable development in the category though these products have yet to be commercialised and make a mark.

The market is driven by canine pain associated with osteoarthritis (OA). The estimated prevalence of OA in dogs ranges from 5% to 40% in western Europe and USA, the number of recorded cases increasing as diagnostic methods and awareness improves.

Treatment compliance is the second key driver. As most animals require daily medication, owner compliance is a significant risk to long-term pain control in pets.

Innovation is a key driver in the market. Newer products help to drive awareness of pain management and greater compliance in use. These innovative treatments are expected to command higher margins and earnings per patient group.

In future, we expect to see the development of injectable or liquid oral formulations specifically designed for cats where routine daily tableting is a challenge.

Dermatology

The dermatology market is driven by the clinical presentation in dogs ranging from mild cases to severe dermatitis, skin damage and related secondary infections. In most cases owners are very aware of itching by the dog and often associate the initial signs with parasitological disease such as tick or flea infestations.

The desire for speedy resolution of clinical signs is a major driver in the market with owners expecting quick relief for their pet's discomfort and associated unpleasant effects. Unresolved or unresponsive cases often lead to specialist referrals or recourse to alternative general vet practitioners. As a consequence, medicalisation rates are high and therapies quickly adopted.

Innovation is a strong market driver. New therapies from immune-modulation using cyclosporin (early 2000s), oclacitinib (2014) and lokivetmab (2017) have all yielded significant market growth. While these therapies control the effects of the allergic skin disease they do not necessarily cure the cause of allergy and, therefore, are often used long term to control clinical signs.

Future innovation is expected in the form of vaccination by protecting against specific causative antigens or through immune-modulation of cytokine and related inflammatory pathways. Secondly, inhibitory molecules (from human use, for example) have potential to target inflammatory pathways leading to canine atopic dermatitis (CAD). Thirdly, as CAD has a genetic disorder component, CRISPR technology may prove an effective convenient long-term therapy.

Anti-infectives

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

Sales of veterinary antimicrobials have decreased by over a third between 2011 and 2019 in Europe with this trend expected to continue due to the focus on reducing drug resistance. Infections caused by gram-negative bacteria are widely seen as one of the biggest issues to global health as their cell structure and ability to develop resistance to commonly used antibiotics make them hard to treat.

As sales of antimicrobials have decreased the search for non-antimicrobial anti-infective solutions, especially preventative measures, has become more important. Key therapy classes include biofilms, microbiome and vaccines.

Biofilms are formed when bacteria and / or fungi adhere to surfaces and excrete a glue-like substance that acts as an anchor providing protection from the environment. Biofilm formation can make bacteria up to 1,000 times more resistant to antibiotics, antimicrobial agents, disinfectants and the host immune system. New technologies are being developed that help break down biofilm, allowing much lower doses of antibiotics to be used with the same therapeutic effect.

Gastrointestinal (GI) microbes play a fundamental role in the health and disease of animals. In production animals innovation is focused on replacing medicated feeds, improving productive efficiency and even reducing methane. In Companion Animals we expect to see developments in microbiome linked to obesity, dental and diabetes as well as traditional GI diseases.

Our Marketplace CONTINUED

Product categories

Companion Animals

Approximately 42% of sales in Europe are Companion Animals and include dog, cat, small mammals, aquatics and non-food producing avian[1].

Growth drivers

- Increasing number of pets
- Higher life expectancy
- Increasing disposable income of pet owners

Production Animals

Livestock (cattle, sheep and pigs) account for 30% of European sales. Poultry and avian account for just under 11%.

Growth drivers

- Increasing global demand for protein
- Increasing industrialisation of meat and milk production
- Food safety concerns encouraging prevention

Equine

Equine takes just under 3% of animal health spend.

Growth drivers

- Equine customers demand
- Increasingly specialised services
- Increasing demand for medical care for horses
- Increasing disposable income of horse owners

Overview of our geographic markets

Our primary market is Europe, the second largest animal medicines market in the world. Europe represents around one-third of the global market with a market value in 2020 estimated at just over €6.8bn[2]. Around 85 million households in the EU are estimated to own at least one pet with 24% of households owning a cat and 25% owning a dog.

Vaccines and parasiticides continue to dominate the market and accounted for over 60% of sales in Europe[3] in 2020. Antimicrobials continue to decline as a share of the overall market and now account for less than 12% of sales, a drop from 17% in the space of eight years.

Trends in the animal health market:

1. Increasing pet ownership, especially among millennials, accelerated due to COVID-19 with an estimated 2.1m people collecting a new pet in the UK alone during lockdown[4]. The increase in pet ownership has been repeated across Europe with the German Kennel Club (VDH) estimating 20% more dogs were purchased in 2020 in Germany[5]. Outside of the developing economies pet ownership is also increasing. Direct correlations between rising GDP per head and pet ownership are recorded, led by cats and smaller dog breeds.

2. The percentage of household income spent on animals and animal health continues to rise with the launches of newer innovative medicines and new technologies[6].

3. Increasing focus on sustainability and the environmental impact of the animal health and production industries. Food production of animal-based protein is expected to decline per capita, though the total global output should remain constant or increase due to population growth. Sources of protein are likely to change too. The poultry and aqua industries should see increased demand, with the swine and ruminant industries seeing declines in relative terms. Another key factor is the reduction in antibiotic use across all species which we expect to drive an increase in vaccine use and a move to less intense production systems.

4. In Companion Animals, the shift to smaller dog breeds will continue and more animals will be medicalised as disposable incomes recover from the economic effects of the pandemic. With smaller breeds, the dosing of active ingredients per head will be reduced. However, margins should be maintained. In Companion Animals we anticipate increased testing in the use of anti-infectives and a move to adopt vaccine prophylaxis for viral and bacterial diseases. This will result in greater focus on the therapies suited to aging Companion Animals.

5. Telemedicine and digital health enjoyed significant growth in 2020. This is predicted to continue in the post-pandemic era with a focus on new forms of engagement with vets, suppliers and owners. This will change the nature of supply to the industry, diagnosis by the veterinarian, engagement with the animal owner and supply and prescription of medicines and services. This trend is being led from North America and is expected to be part of a global shift through the mid-term.

How we are responding

1. We continue to supply a portfolio of key medical and surgical pharmaceutical products, primarily in the Companion Animal sector. Animalcare is actively engaged in finding and developing partnerships with distributors both inside and outside Europe as channel supplier to the market. Animalcare is also working with partners to identify innovative technologies that we can develop and launch with exclusivity in the Companion Animal pharmaceutical segments.

2. Reducing our portfolio reliance on antibiotics is a key strategy which led to the recent investment in STEM Animal Health Inc. to exploit biofilm-targeting technologies in anti-infective roles. This technology has potential in Companion Animals (for example, dental care, otitis, skin care) and Production Animals (for example, managing gut microbiome to combat enteric infections).

3. Animalcare is launching new therapeutic medicines which focus on key differentiated areas in some significant segments such as the $300m pain and osteoarthritis market for Companion Animals. Developing differentiated products that target specific segments or niches of therapeutic markets with clearly identified criteria for success is central to the Group's growth strategy.

Sources

1. Animalhealth Europe Report 2020
2. Animalhealth Europe Report 2020
3. https://www.pfma.org.uk/news/pfma-confirms-dramatic-rise-in-pet-acquisition-among-millennials-
4. https://www.dw.com/en/covid-demand-for-dogs-and-cats-surges-in-germany/a-56318208
5. Animal Health New and Animal Health Economics 2020
6. Animal Health New and Animal Health Economics 2020

Market Growth opportunities

1. Innovation in immunotherapy within Companion Animals (for example pain and osteoarthritis, pain management and dermatology)
2. Non-antibiotic anti-infectives including microbiome and anti-biofilm
3. Complementary diagnostics and therapy monitoring, for example in pain and anaesthesia
4. Anti-zoonotic disease control, intervention and bio-protection
5. Veterinary ophthalmology, bringing human eye care options to veterinary medicine

Our Strategy

In 2019, we set a strategic ambition to deliver above market growth in three to five years on the way to becoming a leading player in the European animal health market. In spite of the extreme headwinds of COVID-19, we made tangible progress against our short-term and long-term goals during 2020.

Our strategic pillars

Key goals	Key initiatives	Progress	2021 priorities	Link to KPIs
Strong finances Financial sustainability through revenue growth, cash conversion, EPS growth and EBITDA margin growth				
Revenue growth Link to Risks A G	• Focus on segments and products with highest potential • New product launches • Leverage strengths across all our direct markets • Maximise opportunities in other high growth markets through partnerships or selective acquisition	• New product sales of £2.2m (2019: £1.8m) • Fast growing contribution from Italy • c3.2% like-for-like growth from top 40 products in base portfolio	• Continue to scale up in fast-growing countries • UK and Belgium return to growth • Successful launch of Daxocox and STEM biofilm range in H2	Revenue Growth Underlying EBITDA margin Number of partners
Cash conversion and net debt Link to Risks C E F	• Optimise inventory • Tax efficiency • Net debt reduction	• Strong underlying cash conversion of 102.9% • £13.6m net debt; reduced by 24% over course of 2020 • Net debt to underlying EBITDA leverage ratio further reduced to 1.1 times	• Maintain strong cash conversion focus to provide investment for growth strategy • Maintain EBITDA leverage in the range of 1 to 2 times	Basic Underlying Earnings per share ("EPS") Number of products in portfolio Number of countries selling in/to
Underlying EBITDA margin and EPS growth Link to Risks C E F	• Focus on higher margin products • Operating efficiency and leverage	• Low margin tail products reduced to around 200 (c330 at time of merger) • Underlying EBITDA margin 17.2% reflecting decisive management of SG&A costs and increased investment in people, business development and pipeline • Underlying EPS of 10.6 pence	• Investment in new product launches and other growth opportunities while maintaining focus on operational efficiency	Basic Underlying Earnings per share ("EPS") Number of products in portfolio Number of countries selling in/to

Risks

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

STRATEGIC REPORT

Key goals	Key initiatives	Progress	2021 priorities	Link to KPIs
Key leadership Organisation for success; leadership strength and core capabilities				
Attract, retain and develop talented people Link to Risks C D	• Build leadership capabilities • Align reward to performance • One-team culture • Drive effective communication and collaboration • Improve diversity	• 11% improvement in annual engagement survey score • Strengthened business development and sales and marketing capabilities • Regular pulse surveys during pandemic, supporting well-being • Performance management process rolled out	• Implement actions from employee engagement survey • Improve two-way employee communication • Implement Group-wide talent management programme • Live our new brand	Underlying cash conversion Underlying EBITDA margin Number of countries selling in/to
Organisation for growth Link to Risks B G I	• Reorganisation to drive growth agenda with clear leadership accountabilities	• Launched new structure to support delivery of growth strategy (February 2021) • Creation of streamlined Senior Executive Team (SET)	• Complete recruitment of SET roles • Embed new structure and ways of working	Employee engagement Number of partners Number of countries selling in/to
Growth portfolio Focused portfolio in key therapy areas in growing market segments				
Focus on existing core brands that generate sustainable growth and margins Link to Risks C D	Improve quality of portfolio; focus on smaller number of bigger selling, higher margin brands	• 100 smaller tail products removed since merger: now around 200 brands • £2.2m of new product sales with launches of Procanicare, Doxycare and Metrocare helping to reinforce base portfolio • Strengthened sales and marketing excellence	• Drive growth in Companion Animals and maintain strong presence in Production Animals • Continue to reduce tail with long-term portfolio target of c150 brands while maintaining or growing revenues • Continued investment in product launch capability	Underlying cash conversion Underlying EBITDA margin Number of countries selling in/to

Our Strategy CONTINUED

Risks

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

Key goals	Key initiatives	Progress	2021 priorities	Link to KPIs
Business Development Work with partners to build a pipeline of products that meet our criteria for growth				
In-license or acquire products and develop network partnerships Link to Risks B G I	• In-license or acquire innovative pipeline or market-ready products • Establish Animalcare as partner of choice, especially for companies selling into Europe • Build partnerships to exploit growing global markets	• STEM joint venture gives access to companion animal biofilm-targeting products today and influence over development of products in the future	• Continue to pursue value-creating partnerships and in-licensing opportunities • Recruit and onboard Strategic Product and Business Development Director to continue capability build • Complete carve-out of UK Identibase business to increase management focus and facilitate growth opportunities	Employee engagement Number of partners Number of countries selling in/to
Innovative Pipeline Building a pipeline of novel and differentiated products				
Launch new products and develop differentiated and innovative pipeline of products for the future Link to Risks A E	• Strengthen internal pipeline of differentiated products through partnerships, in-licensing and acquisitions • Prioritise and accelerate in-house R&D projects	• CVMP recommends approval for Daxocox in EU (February 2021) • Initiation of life cycle management (LCM) programmes for Daxocox to support new indications and geographical expansion • Completed development of branded generics pipeline to reinforce base portfolio	• Increase investment in pipeline versus 2020 • Execute clinical and regulatory programme for Daxocox LCM • Drive launch of Daxocox and STEM products • Identify potential development opportunities from STEM joint venture	Revenue Growth Basic Underlying Earnings per share ("EPS")

CASE STUDY

STEM Animal Health Inc - delivering on our strategy

Animalcare Group and Kane Biotech Inc. join forces through creative deal structure to commercialise and develop biofilm-targeting treatments for animal health.

In September 2020, Animalcare signed a partnership deal with Kane Biotech Inc. to exploit the animal health potential of the Canadian firm's extensive biofilm-targeting expertise.

Biofilms are formed when bacteria or yeast adhere to surfaces and excrete a resin-like substance that acts as an anchor and provides protection from external factors such as host immune system defences and antifungal or antibacterial drugs. Biofilms can make bacteria up to 1,000 times more resistant to antibiotics, disinfectants and the host immune system.

This is a significant business development deal for Animalcare which provides the Group with access to attractive anti-biofilm products today and influence over innovative products of the future.

Under the terms of the agreement, Kane Biotech has created a new subsidiary called STEM Animal Health Inc. For a phased investment of CA$3m, Animalcare has acquired a one-third plus one share equity interest in the STEM joint venture which has a global license over Kane Biotech's existing range of animal health oral care products. In collaboration with Animalcare, STEM will also focus on the research and development of novel animal treatments based on biofilm-targeting technology.

Additionally, in exchange for receiving the right to commercialise Kane's coactiv+TM and DispersinB® products in global veterinary markets outside the Americas, Animalcare will pay licensing fees up to a maximum of CA$2m as well as ongoing royalties. Animalcare plans to launch the STEM products in its markets in the second half of 2021.

Animalcare believes the creative structure of the deal befits Kane Biotech's innovative biofilm technology and underlines the commitment of both parties to a long-term sustainable commercial relationship.

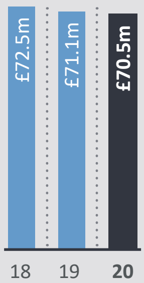
Link to strategic priority:

> **"This is a significant business development deal for Animalcare which provides the Group with access to attractive anti-biofilm products today and influence over innovative products of the future."**

Our
Key Performance Indicators

Financial KPIs

Revenue Growth



£70.5m

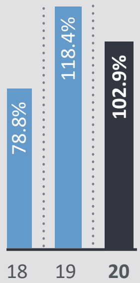
Link to Strategy

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

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

Commentary on performance
Revenue for the year was £70.5m (2019: £71.1m) a decline of 0.9% (2.0% decline at CER). Sales from new products launched in the year was £2.2m (2019: £1.8m)

Underlying cash conversion



102.9%

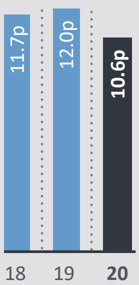
Link to Strategy

Definition
Cash generated from operations as a percentage of underlying EBITDA

Why we measure this
Our quality of earnings is reflected in our ability to turn underlying EBITDA into cash, an important enabler of investment in our growth strategy

Commentary on performance
Underlying cash conversion has averaged over 100% since 2019, demonstrating our ability to generate strong and sustained levels of cash

Basic Underlying Earnings per share ("EPS")



10.6p

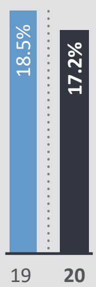
Link to Strategy

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

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

Commentary on performance
Underlying EPS decreased by 11.7%, reflecting the lower underlying profit before tax and a 1.4% reduction in the effective tax rate

Underlying EBITDA margin



17.2%

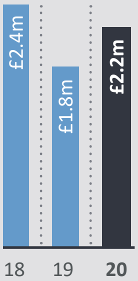
Link to Strategy

Definition
Underlying EBITDA as a percentage of sales

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

Commentary on performance
Underlying EBITDA margin declined to 17.2%, reflecting decisive management of SG&A costs in Q2 to align with sales and increased investment in people and drivers of future growth

New product revenue



£2.2m

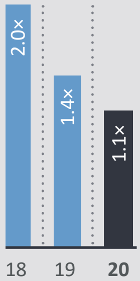
Link to Strategy

Definition
Revenue from new products launched in the last three financial years

Why we measure this
New product revenues are a key driver of growth in Companion Animals and maintaining our strong presence in Production Animals

Commentary on performance
Growth from newly introduced products contributed £2.2m of sales principally driven by Metrocare, Doxycare and Procanicare

Net debt to underlying EBITDA leverage



1.1x

Link to Strategy

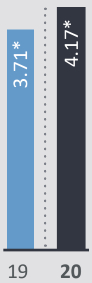
Definition
Leverage is net debt (total debt less cash balances) divided by underlying EBITDA

Why we measure this
We seek to maintain a strong balance sheet with EBITDA leverage in the range of 1 to 2 times to allow capacity for investment in future growth

Commentary on performance
Net debt to underlying EBITDA leverage ratio further reduced in 2020 to 1.1 times

Non-financial KPIs

Employee engagement



4.17*

Link to Strategy

Definition
A measure of employee engagement based on the well-established Gallup Q12 index

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

Commentary on performance
11% increase in engagement levels despite the challenges of COVID-19. In particular, positive results were seen in terms of employee recognition, involvement in decisions affecting employees and the process of regular feedback across the Group.

*Gallup Q12 engagement score

Strategic priorities

- **Strong finances**
- **Key leadership**
- **Growth portfolio**
- **Business development**
- **Innovative pipeline**

Our Business Model

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

Key resources →

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

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

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

Partnerships
The Group has developed a series of partnerships that help support the success and smooth running of the business. These range from joint ventures that strengthen our pipeline and commercialisation agreements that increase the reach of innovative products through to long-standing relationships with contract research and manufacturing organisations.

Balanced portfolio
Animalcare operates a portfolio of around 200 brands with particular strengths in our core therapy areas of pain management, allergy and non-antibiotic anti-infectives. We continue to increase the quality of our portfolio through the development of novel differentiated products and a focus on a smaller number of bigger, higher margin brands.

Financial platform
Critical to our future growth is the further development of our product portfolio. Our solid financial platform, with improved cash generation and reduced net debt, enables us to increase investment and leverage our stronger base to deliver future growth and value to our shareholders.

Our key activities →

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

- We develop and commercialise novel pharmaceutical products for the animal health market. These are developed in-house, acquired from other companies or in-licensed from partners.
- Outside our direct markets we seek to commercialise our own products through international partnerships.
- We manufacture our products through a network of specialist contract manufacturing organisations.
- We manage an extensive international supply chain, including specialist veterinary wholesalers.
- Through our close relationship with stakeholders and our sales and marketing capabilities we sell products to veterinary practices and veterinary groups.
- The cash we generate from these activities helps fund investment in our pipeline of new products and supports the continuing development of our sales and marketing capabilities.

Value created for stakeholders

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

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

Keepers of animals
Our veterinary products and services help maintain or improve the health and well-being of animals across our markets. That brings huge benefits to owners and wider society.

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

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

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

Our people represent a competitive advantage

Agility: Our agility, expertise and local knowledge means we know our markets and are able to adapt to evolving needs.

Trust: We have built trusted relationships with individual veterinary practices and larger veterinary groups.

Innovation: We are increasingly focused on differentiated therapies that can meet the needs of our customers while delivering sustainable above-sector growth.

Partner of choice: We are positioned as a preferred international partner for companies that want to develop new treatments or bring their innovative products into the European marketplace

Chief Executive Officer's Review

Jennifer Winter
Chief Executive Officer

"The Group's performance in 2020 speaks volumes for the resilience of our business and the agility of our organisation while our strategic progress demonstrates our capacity and commitment to target sustainable growth."

Despite the disruption experienced by our markets due to the pandemic I'm delighted to report that we made significant advances against all five of our strategic priorities over the course of the year.

The Group's performance in 2020 speaks volumes for the resilience of our business and the agility of our organisation while our strategic progress demonstrates our capacity and commitment to target sustainable growth.

Strong finances

Our growth strategy is enabled by a strong financial platform. With that in mind we continue to pursue opportunities that drive revenues and improve margins while maintaining our focus on cash conversion and the management of net debt.

Total revenues for 2020 were £70.5m (2019: £71.1m), a decline of 0.9% year-on-year (2.0% decline at constant exchange rates) due to the impact of COVID-19 with the negative impact weighted towards the first half. For the six months to the end of December 2020, sales were up 3.0% to £36.0m (2019: £35.0m). Reversing a pattern seen in recent years, the 4.6% growth in the Production Animals segment was higher than in Companion Animals. This reflects the restrictions placed on public-facing veterinary practices during the pandemic and underlines the continued importance of Production Animals to our balanced and diverse business. We expect revenues to assume a more recognisable shape during 2021 as controls on Companion Animal practices are relaxed and eventually return to normal.

At £12.1m, underlying EBITDA reflected the decisive actions to reduce SG&A and capex spend in the first half followed by increased investment in growth drivers for the six months to the end of December. Profit before tax on a statutory basis was £0.2m. Cash conversion improved in the second half of the year and the average rate for 2019 and 2020 combined was in excess of 100% of underlying EBITDA, demonstrating our ability to generate strong and sustained levels of cash.

We further reduced net debt by £4.2m to £13.6m at the end of 2020, largely as a result of the second half improvement in cash conversion. This equates to a year-on-year reduction in net debt of 24%. Indeed, the net debt figure stood at £12.9m by 28 February 2021. The Group's improving financial position provides capacity for further investment in business development and pipeline opportunities that support our long-term growth strategy.

Key leadership

During 2020 we continued to build a highly skilled and high performing team driven by a shared sense of purpose and values.

Our business development capability – a key enabler of our growth strategy – has been further strengthened. And as we prepare for 2021 launches of Daxocox and products from our STEM joint venture, we are investing in commercial excellence skills across the Group.

Two notable milestones in the development of our organisation came as post-period events – the restructuring of our senior leadership and the read-out of the 2020 employee engagement survey.

In January 2021, we unveiled a new organisation structure designed to support delivery of our growth strategy. The move to a smaller and highly experienced Senior Executive Team (SET) will support clear, informed and rapid decision-making. The team will focus on maintaining our existing business; achieving new product launch excellence; and driving future growth.

We've created three new roles: Directors for North Europe and South Europe to drive operations in the countries and a Strategic Product and Business Development Director to lead future growth strategy, including all business development activities and the clinical and technical development of new products.

Just as feedback from our customers helps us refine our approach to great customer service, our employee engagement survey shows us how we're doing from the perspective of our employees.

We use the Gallup Q12-survey results to understand what our teams value most in their workplace, to identify opportunities for improvement and to track our progress over time.

In 2019 we conducted our first company-wide survey. Our 2020 Gallup survey, which completed in January 2021, saw employee participation increase to 89%. Despite the challenge of COVID-19, our overall 2020 survey results were very positive with an 11% increase in engagement levels compared to the previous year. I'm proud of that improvement which puts us in the upper percentile rank of Gallup's participant database.

Growth portfolio

Maintaining the health of our existing business is a core objective of our strategy. A strong base creates sustainable value for shareholders and generates the cash flows to invest in differentiated products which will drive future growth.

From a market segment perspective, we continue to target Companion Animals and Equine where we see the biggest growth opportunities over the long term. For Production Animals, we aim to maintain our important presence in our chosen markets. These priorities are mirrored in our research and development targets.

We also continue to make significant headway in our efforts to rebalance, refocus and defragment our portfolio of products. Reducing the number of smaller "tail" or lower value products allows us to concentrate our commercial resources on assets with growth prospects and higher margins. In 2017, the portfolio consisted of around 330 brands which subsequently has been reduced by 100 products, bringing the total to approximately 200 brands. Increased management focus on a smaller number of bigger products was evident in 3.2% growth rate from the top 40 brands in 2020.

Tracking progress is crucial as we continue to improve the quality and shape of our portfolio. With that objective in mind, we are committed to grow total revenues and improve gross margins while reducing the number of brands over the longer term to approximately 150.

Products can exit our portfolio for a variety of reasons. That can be as a result of our rationalisation programme, due to the natural expiry of a contract or because the product is no longer a strategic fit. In this latter category is Adequan which Animalcare had planned to launch in Europe under an agreement with American Regent Animal Health. In light of regulatory delays, this agreement was mutually terminated in January 2021. The decision is not expected to have a significant impact on future revenues.

Business development

Critical to our growth ambitions is our ability to discover and pursue attractive opportunities that originate outside the Company. It is no surprise that our business development team has been particularly active in 2020, in spite of the pandemic. Reinforcing our capability in this space, which we expect to further develop during 2021, has enabled us to identify attractive opportunities more efficiently and determine their potential more rapidly. Currently, we are involved in a number of discussions that have the potential to offer value-creating partnerships or in-licensing opportunities. We also believe we have the necessary financial strength to realise the right deals and are open to use the full range of appropriate funding options to deliver growth opportunities.

In September 2020 we signed a CA$5 million agreement with Canada-based firm, Kane Biotech Inc. to create a joint venture called STEM Animal Health Inc. that is responsible for commercialising and developing products based on biofilm-targeting anti-infective technology. Under the agreement, we will market and sell Kane Biotech's existing Companion Animal range of oral care products in European and Asian markets as well as collaborate on the development of new biofilm treatments for animals. We plan to launch STEM products in the second half of 2021 following completion of the manufacturing transfer process to a European base.

This is a sustainable agreement with a creative deal structure that gives us access to attractive products today and influence over the development pipeline of biofilm products of the future.

Chief Executive Officer's Review CONTINUED

The new organisation structure is designed to increase focus on drivers of growth

	Chief Executive Officer Jenny Winter	
Group Commercial Director Martin Gore	**Chief Financial Officer** Chris Brewster	**North Europe Director** Bernhard Putz
Group HR Director Carla De Schepper	**Strategic Product and Business Development Director** Recruitment under way	**South Europe Director** Maria Lasagabaster

Innovative pipeline

Our internal pipeline showed important signs of bearing fruit with our novel COX 2 inhibitor making steady progress through its regulatory review over the period. Daxocox (enflicoxib) was submitted for EU and UK approval in January 2020 for the treatment of pain in dogs and received a positive opinion from the Committee for Medicinal Products for Veterinary Use (CVMP) in February 2021. Following the CVMP's recommendation, a decision on marketing authorisation is expected early in the second quarter.

We see this as a hugely important step in the journey to market for Daxocox, a product that has the potential to play a leading role in the Animalcare growth story. Subject to final approval, we plan to launch Daxocox across European markets in the second half of 2021. It's a source of pride that Daxocox is the sole property of the Group and the development programme is led and managed by the Animalcare team with support from an external CRO.

While we continue to pursue opportunities to strengthen our internal pipeline, we have initiated a number of lifecycle management projects to support our commercial ambitions for Daxocox and are adding biofilm-targeting programmes from our STEM joint venture. Creating a pipeline of differentiated products – whether generated in-house or through partnerships, in-licensing or acquisitions – is one of the key elements of our growth strategy.

New look, same commitment

By now I hope you have noticed our rebranding of the Group companies. A strong brand will support our growth ambitions. And we believe this consistent "family feel" better reflects the qualities of Animalcare Group: our scale and reach; our science-driven approach; our blend of local knowledge and global co-ordination; our agility; and our approachability. It's a new look, but with the same all-in commitment to our customers and to the cause of better animal health.

Summary and outlook

We entered 2020 in a solid financial position. And despite the uncertainty and disruption wreaked by the pandemic we emerged from this testing year with an even stronger platform enabling us to continue investing in our growth strategy.

Looking ahead to 2021, it's prudent to assume that the coronavirus will have other challenges for us. However, the efficacy of the new vaccines combined with the proven adaptability of the veterinary sector and the agility of our own organisation makes us confident that normality will return to our markets during 2021.

We are encouraged by demand levels we are seeing in the first quarter of the year and barring further disruption from COVID-19 we expect revenues to grow over the course of 2021. We also plan to invest in new product launches of Daxocox and the STEM oral health range while continuing to seek opportunities to strengthen our pipeline.

The resilience and commitment of our people throughout this period has been remarkable. We've supported each other and have remained focused on our priorities. That has been evident in our business performance and in our strategic achievements in 2020. I'd like to thank all our employees for their extraordinary efforts in extraordinary times. That experience will serve us well as we continue to implement our growth strategy.

Jennifer Winter
Chief Executive Officer

Employee engagement

Higher levels of engagement are associated with increased productivity, longer retention rates and a better customer experience – all factors that contribute to our long-term growth and success. The Group started to use the Gallup Q12-survey to measure engagement in 2019. This tool helps identify opportunities for improvement and track progress over time.

Our 2020 Gallup survey, which completed in January 2021, saw employee participation increase to 89% and overall engagement levels jump 11% compared to the previous year. This puts Animalcare in the upper percentile rank of the Gallup's participants database.

The survey results are shared internally in a way that ensures anonymity. The different teams then develop a customised action plan for their specific department to address key focus areas identified by the survey.

Moving ahead

In 2021, the Group will continue to expand employee engagement efforts by:

- Creating clear objectives and additional opportunities for our teams to provide constructive feedback
- Providing a Global Leadership Mindset and personal (including leadership development) and team development training
- Implementing a talent management programme across the Group
- Conducting employee focus groups to further identify what a "Great place to work" means to our teams and how we can achieve that goal.

Read more about **OUR STRATEGY** on page **10**

Read more about **OUR BUSINESS MODEL** on page **16**

CASE STUDY

Daxocox achieves major milestone with EU recommendation

Differentiated treatment for osteoarthritis-related pain and inflammation emerges from internal R&D pipeline with potential to play a leading role in the Animalcare growth story.

On 18 February 2021, Animalcare received a positive opinion from the Committee for Medicinal Products for Veterinary Use (CVMP) recommending a marketing authorisation for Daxocox (enflicoxib) in Europe.

This recommendation followed a detailed assessment of our submission to the European regulators, filed at the beginning of 2020. It represents a major achievement by the Group's in-house development team and is the culmination of many years of hard work and commitment to better animal health.

Daxocox is a novel COX 2 inhibitor for the treatment of pain and inflammation associated with osteoarthritis (or degenerative joint disease) in dogs. Following the CVMP's positive opinion, a marketing authorisation decision from the European Commission is anticipated early in the second quarter of 2021. If approved, the authorisation will be valid in all member states of the European Union as well as Norway, Liechtenstein and Iceland.

The equivalent regulatory review of Daxocox for the UK is running largely in parallel with the European Union's schedule and we expect a decision on UK marketing authorisation within the same timeframe.

This is a hugely important step in the journey to market for Daxocox, a product that has the potential to play a leading role in the Animalcare growth story. Subject to final approval, the Group plans to launch Daxocox across European markets in the second half of 2021 and expects the product to contribute to revenues before the end of the year.

The development programme for Daxocox is led and managed by the Animalcare team, with support from contract research organisations, under the pipeline project name E-6087. Daxocox is the sole property of Animalcare Group plc.

Animalcare has initiated a number of lifecycle management projects to support commercial ambitions for Daxocox and expects to add biofilm-targeting programmes from STEM Animal Health Inc., our joint venture with Canadian company, Kane Biotech. Strengthening our pipeline of differentiated products – whether generated in-house or through partnerships, in-licensing or acquisitions – is a key element of our growth strategy.

Link to strategic priority:

Chief Financial Officer's Review

Chris Brewster
Chief Financial Officer

"We are pleased to report a resilient trading performance through the COVID-19 pandemic and our improving financial position provides an increasingly strong platform for investment in our strategy and growth."

Underlying and statutory results

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

Overview of underlying financial results – continuing operations

	2020 £'000	2019 £'000	% Change at AER %
Revenue	**70,494**	71,124	(0.9%)
Gross Profit	**36,559**	36,972	(1.1%)
Gross Margin %	**51.9%**	52.0%	(0.1%)
Underlying Operating Profit	**8,561**	9,462	(9.5%)
Underlying EBITDA	**12,091**	13,137	(8.0%)
Underlying EBITDA margin %	**17.2%**	18.5%	(1.3%)
Underlying Basic EPS (p)	**10.6p**	12.0p	(11.7%)

Despite significant disruption to the animal health market caused by COVID-19, the Group's trading performance was resilient with revenues at £70.5m (2019: £71.1m), a decline of 0.9% year-on-year (2.0% decline at CER). Revenue by product category is shown in the table below:

	2020 £'000	2019 £'000	% Change at AER %
Companion Animals	**44,808**	46,464	(3.6%)
Production Animals	**19,720**	18,844	4.6%
Equine and other	**5,966**	5,816	2.6%
Total	**70,494**	71,124	(0.9%)

Companion Animals revenue decreased by 3.6% to £44.8m, principally reflecting pandemic-related disruption to veterinary activity across Europe, particularly during the first half. As we entered Q2, veterinary practices remained open for business in the majority of our markets though virus containment measures restricted opening hours and consultations. The impact of COVID-19 was felt most strongly in the UK, which saw large-scale closures of veterinary practices and all but urgent and emergency cases being seen.

Evidence of a return to more normal customer activity in the majority of our markets was observed during the second half, with revenues up c3.0% versus the prior period.

The greater emphasis on emergency-only treatments reduced opportunities for interaction with many veterinary practices. This had the effect of slowing or deferring new products launches. Notwithstanding these dynamics, growth from newly introduced products contributed £1.9m of sales (2019: £1.5m) principally driven by Metrocare, Doxycare and Procanicare.

In contrast, Production Animals revenue improved by 4.6% on the prior year to £19.7m, largely driven by growth in Italy and Spain, with the latter benefiting from the restructuring initiated at the end of 2019. Large animal practices in general were less impacted by COVID-19 due to the more industrial nature of this market.

Equine and other sales increased by 2.6% to £6.0m. This was primarily due to stock build within our international partner channel in advance of a manufacturing transfer, which will unwind during 2021.

Our existing portfolio continues to be shaped by focus on our core higher margin brands, initiatives to reduce fragmentation and expiry or cessation of distribution deals. Our top 40 products grew by 3.2% vs 2019, offset by termination of distribution deals within our Companion Animal portfolio effected during 2018.

Underlying EBITDA decreased by 8.0% to £12.1m (2019: £13.1m) with EBITDA margin declining to 17.2% (2019: 18.5%). During the first half we took decisive action to realign SG&A spend with revenue. Together with the benefit of cost efficiencies generated during 2019, this resulted in a reduction in SG&A costs as a percentage of sales. As we previously reported, and due to the confidence in the resilience of our business, we subsequently increased investment in our people and drivers of future growth, including those related to business development, sales and marketing excellence and our new novel product Daxocox. As a result, SG&A expenses as a percentage of revenue increased to 34.8% (2019: 33.5%).

The underlying effective tax rate of 20.1% (2019: 21.5%) has reduced versus prior year, principally driven by recognition and utilisation of tax losses. We continue to optimise research and development tax credits.

Reflecting the points noted above, underlying basic EPS decreased by 11.7% to 10.6 pence (2019: 12.0 pence).

Chief Financial Officer's Review continues overleaf.

Chief Financial Officer's Review CONTINUED

Overview of reported financial results

Reported Group profit after tax for the year (after accounting for the non-underlying items shown in the table and discussed below) was £0.2m (2019: £1.3m loss), with reported earnings per share at 0.4 pence (2019: 2.2 pence loss per share).

	2020 Underlying results £'000	Amortisation and impairment of intangibles £'000	Acquisition, restructuring, integration and other costs £'000	**2020 Reported results £'000**	2019 Reported results £'000
Revenue	**70,494**	–	–	**70,494**	71,124
Gross Profit	**36,559**	–	–	**36,559**	36,972
Selling, general and administrative expenses	**(25,627)**	(4,800)	–	**(30,427)**	(29,356)
Research and development expenses	**(2,386)**	(1,100)	–	**(3,486)**	(4,093)
Net other operating income/(expense)	**15**	–	(1,858)	**(1,843)**	(4,814)
Operating profit/(loss)	**8,561**	(5,900)	(1,858)	**803**	(1,291)
Net finance expenses	**(511)**	–	–	**(511)**	(317)
Share in net loss of joint ventures accounted for using the equity method	**(93)**	–	–	**(93)**	–
Profit/(loss) before tax	**7,957**	(5,900)	(1,858)	**199**	(1,608)
Taxation	**(1,604)**	1,197	442	**35**	270
Profit/(loss) for the year	**6,353**	(4,703)	(1,416)	**235**	(1,338)
Basic EPS (p)	**10.6p**			**0.4p**	(2.2p)

Non-underlying items totalling £7.8m (2019: £10.8m) relating to profit before tax have been incurred in the year, as set out in note 4. These principally comprise:

1. Amortisation and impairment of acquisition-related intangibles of £5.9m (2019: £7.6m). This charge primarily comprises amortisation in relation to the reverse acquisition of Ecuphar NV and previous acquisitions made by Ecuphar NV. The decrease versus 2019 largely reflects the prior year non-cash impairment of three projects within the acquired product development pipeline at a fair value of £1.5m that failed to meet technical, competitive or commercial milestones.
2. Acquisition and integration costs of £0.7m (2019: £0.6m). This includes costs associated with the STEM Animal Health transaction and integration costs in connection with the acquisition of Ecuphar NV, including manufacturing transfer costs as we continue to strengthen and simplify our supply chain.
3. Restructuring costs of £0.4m (2019: £1.8m) largely relating to further reorganisation of the Production Animals business unit in Spain that was initiated in late 2019. The prior year charge primarily relates to the R&D and Technical & Regulatory team centralisation and associated costs of implementing the headcount reduction.

Dividends

An interim dividend of 2.0 pence per share was paid in November 2020.

The Board is proposing a final dividend of 2.0 pence per share (2019: Nil pence per share) reflecting the resilient trading performance, strong financial position and our confident outlook. Subject to shareholder approval at the Annual General Meeting to be held on 9 June 2021, the final dividend will be paid on 2 July 2021 to shareholders whose names are on the Register of Members at close of business on 4 June 2021. The ordinary shares will become ex-dividend on 3 June 2021.

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

Cash flow and net debt

We entered 2020 in a strong financial position following the significant progress made during 2019 in improving our cash conversion and reducing our net debt – both important in providing capacity for further investment in business development and pipeline opportunities that support our long-term growth strategy.

As projected, following a significant improvement in the second half of the year as our underlying stock profile returned to nearer historic levels, we are pleased to report that the Group has delivered another strong underlying cash conversion performance of 102.9% (2019: 118.4%) as set out in the table below:

	2020 £'000	2019 £'000
Underlying EBITDA	**12,091**	13,137
Net cash flow from operations	**11,117**	13,071
Non-underlying items	**1,324**	2,485
Underlying net cash flow from operations	**12,446**	15,556
Cash conversion %	**102.9%**	118.4%

Net cash flow generated by our operations decreased to £11.1m (2019: £13.1m). Working capital was broadly flat year-on-year with the £1.6m increase in our inventories offset by movements in other trade working capital. In line with expectations, the increase in inventories was principally due to strategic stock build in respect of manufacturing transfers across three key brands as part of their lifecycle management, certain of which will be held through to the second half of 2022.

Net debt reduced by £4.2m over the full year and stood at £13.6m on 31 December 2020. This improvement was largely driven by the continued strong cash conversion noted above.

	£'000
Net debt at 1 January 2020	**(17,812)**
Net cash generated from operations	**11,117**
Net capital expenditure	**(2,313)**
Investments in joint venture	**(593)**
Net finance expenses	**(1,650)**
Dividends paid	**(1,201)**
Foreign exchange on cash and borrowings	**(1,290)**
Movement in IFRS16 lease liabilities	**124**
Net debt at 31 December 2020	**(13,618)**

Net capital expenditure of £2.3m (2019: £2.4m) largely comprises investment in our product development pipeline of £1.7m. The most significant component of this figure relates to the completion of the initial clinical programme for Daxocox (enflicoxib). Following the CVMP's positive opinion in February 2021, and subject to receipt of marketing authorisation expected in Q2, Daxocox will launch early in the second half. The balance of expenditure largely relates to continuing investment in our IT infrastructure to deliver our objective of common platforms across the Group.

The net debt to underlying EBITDA leverage ratio was 1.1 times (2019: 1.4 times) versus the bank covenant of 3.5 times. At 31 December 2020, total facilities were £46.3m, of which £16.3m, net of cash balances, was utilised, leaving headroom of £30.3m.

Chief Financial Officer's Review CONTINUED

Borrowing facilities
At 31 December 2020, the Group's financing arrangements consisted of a committed revolving credit facility of €41.5m, a €10m acquisition line, which cannot be utilised to fund our operations, and €4.1m investment loans. All facilities were due to expire on 31 March 2022.

As at 31 December 2020, all covenant requirements were met with significant headroom across all three measures.

During the first quarter we have been in discussions with our four syndicate banks to extend our existing banking facilities from 31 March 2022 to 31 March 2025. We have completed renewals with three of the four banks and expect to finalise the remaining documentation with the fourth in early April.

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

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

Acquisitions
On 28 September 2020 the Group announced that it has entered into an agreement with Canada-based biotech company Kane Biotech Inc. under which the parties formed STEM Animal Health Inc. ("STEM"), a company dedicated to treating biofilm-related ailments in animals. The Group acquired a one-third stake in STEM for a cash consideration of CA$3m, payable over 48 months, of which CA$1m (£0.6m) was paid during the financial year. The Group has an option, for a period of six years, to acquire an additional one-sixth stake in STEM for CA$4m.

Separately, we also announced that we had entered into a licensing agreement, under which we will invest a further CA$2m, consisting of an initial payment along with a series of potential payments linked to various milestones, for rights to commercialise products in global veterinary markets outside the Americas.

Both the equity investment in STEM and the licensing fee are expected to be paid from existing cash resources. We expect the agreement to be earnings enhancing in 2022.

Going concern
The Group continued to build a solid financial platform in 2020 and, despite the uncertainty and challenges caused by COVID-19, entered 2021 in a further improved financial position.

As at 28 February 2021 net debt was £12.9m (31 December 2020: £13.6m). Headroom on the banking facilities, including cash on balance sheet, was £29.3m (31 December 2020: £30.3m).

In the early part of 2021 demand has been encouraging as both Animalcare and the veterinary market continue to demonstrate resilience during the pandemic. While our trading performance remains robust, the Directors have assessed the principal risks and considered the impact of a "severe but plausible" downside scenario for COVID-19 for the next 12 months as part of the Group's adoption of the going concern basis. The major variables are the depth and the duration of COVID-19 and the Group has run a series of future trading scenarios to June 2022 to factor in a range of downside revenue estimates with mitigating actions on cost and cash flow. These downside scenarios principally mirror the challenging conditions observed during Q2 2020, over a range of timescales, where the impact of the pandemic was most significant. As demonstrated in H1 2020, our scenario planning also reflects our agility in responding to a downturn via reducing or deferring costs to align with revenue and carefully managing our cash flows.

The outputs from these scenarios indicate that the Group would operate well within its committed revolving credit facility of €41.5m and maintain headroom against all covenant obligations throughout the period to June 2022. Accordingly, the Directors continue to adopt the going concern basis of preparation.

Summary and outlook
We continue to deliver against our strategic objective of strengthening our financial base and are pleased to report another strong cash performance and further reduction in both net debt and net debt to underlying EBITDA leverage versus 2019.

Market demand in the first quarter is showing positive signs with a marked increase in revenues compared to the same period in 2020. Looking further ahead, and subject to the receipt of marketing authorisation in the EU and the UK, we continue to prepare for the launch of Daxocox during the second half. Together with the STEM oral health range, we expect these new products to support revenue growth over the full financial year and more significantly from 2022.

We will also continue to optimise and refine our existing portfolio. This will reduce fragmentation and increase commercial focus to drive growth within our higher margin core product range. In connection with this, the Group's Belgium subsidiary discontinued the local commercialisation of several antibiotics and other lower margin products under a legacy distribution contract. There is not expected to be an impact on market expectations for 2021 and beyond where the focus will, consistent with the Group's strategy, continue to be on higher margin products.

Our strong balance sheet provides the capacity to assess investment opportunities that support our long-term growth strategy. We expect to increase investment versus prior year to build and strengthen our pipeline.

Whatever further challenges 2021 presents, we are confident that the Group's financial platform and its focus on a clear growth strategy mean Animalcare will continue to be well placed to take advantage of opportunities in a market with attractive fundamentals.

Chris Brewster
Chief Financial Officer and
Company Secretary

30 March 2021

Our Principal Risks

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

As part of our commitment to strong governance and risk management, during 2020 the Board, through the Audit and Risk Committee (A&RC), requested a review of our governance structure with a focus on risk reporting. As a result, we have identified and incorporated a further strengthening of our Risk Management Framework (RMF). In particular we have:

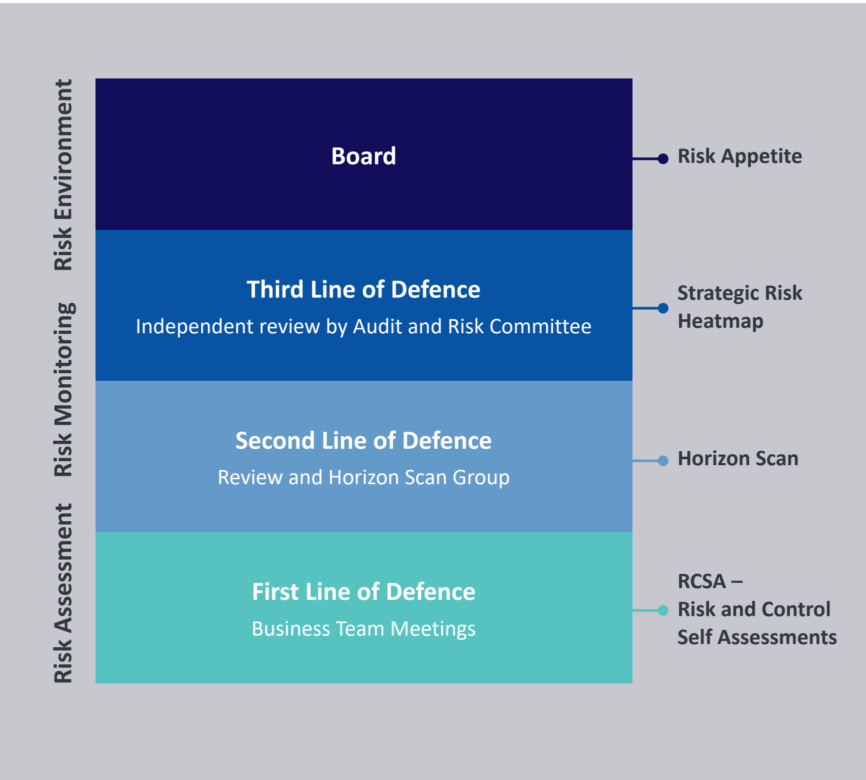
- strengthened the demarcation of responsibilities across the three lines of defence model
- reviewed and updated our risk management inventory, metrics and thresholds; and
- during 2021 we will introduce our revised risk reporting mechanisms

Our RMF is built around the Three Lines of Defence model and builds upon the core approach which is to Assess, Monitor, Manage, Respond and Communicate.

To be effective, risk management relies on the engagement of all parts of the business. This approach is an integral part of the framework and culture. Country Managers and Group function heads are expected to own and manage their own risk and control self-assessments (RCSA). This process includes assessing each risk for its impact and likelihood scored both before and after applying controls. A standardised risk-scoring methodology and template is used to ensure a consistent approach is adopted across the Group. This represents the First Line of Defence.

Local Finance Managers, with support from Group functions such as legal, IT, finance, supply chain and quality control, review the RCSAs and generate a Horizon Scan that provides an overview of risks across the organisation. This ensures independent oversight and consistency of assessment. This represents Second Line of Defence.

The Horizon Scan is reviewed by the executive team. This is followed by the assessment, ratification and mapping of the significant risks to the five core components of our strategy. This is represented on the Strategic Risk Heatmap.



In accordance with our governance practices, oversight of risk management is undertaken by the A&RC which supports the Board by monitoring the Group's RMF and internal control systems. The A&RC provides reports to the Board three times per annum. The A&RC is in receipt of both the Horizon Scan and Strategic Risk Heatmap and provides the Third Line of Defence and assurance to the Group Board.

We believe the changes to our Risk Management Framework will strengthen our ability to monitor, manage and mitigate the most critical risks inherent in our strategic plan, to the benefit of our shareholders, clients and staff.

Risk assessment and reporting

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

We believe that our most significant challenges are strategic in nature, including, for example, the economic disruption caused by the COVID-19 pandemic and the potential for post-BREXIT disruption in some of our major markets through changes to our supply chain and regulations. We continue to carefully monitor strategic risks and review our risk assessments regularly at Group level to ensure that our most senior management are heavily involved in the identification and mitigation of those risks.

The operational impact of COVID-19 on the business during the financial year and the actions we have taken in response are described in various parts of the Strategic and Governance Reports. While the virus has had a significant impact on how we conduct our day-to-day activities, we have continued to operate successfully throughout the pandemic and trading has remained resilient. Economic and market uncertainty remains due to COVID-19 and we will continue to monitor and respond to further changes where required.

Our strategic plans for the business are based on organic and inorganic growth as we continue to seek expansion in new markets and new products. The table below describes the current principal strategic and other risks and uncertainties facing the Group. In addition to summarising the strategic risks and uncertainties, the table below gives examples of how we mitigate those risks.

Our
Principal Risks CONTINUED

Risk	Link to strategy	Potential impact	Mitigation	Risk level	Trend
Market risk In certain territories the veterinary market continues to see the emergence and growth of corporate customers and buying groups who are looking for value from the products and services we provide.		The emergence and growth of corporate customers and buying groups represents an opportunity for sales volume growth but may result in lower margins.	We continue to develop and strengthen our sales and marketing teams in respect of key account support to better serve our changing customer base, both on a national and, in future, a European basis	M	
Competitor risk Launch of competitor products against our key brands, for example other generic or more innovative products. Although our product portfolio is broad, the Top 20 products include a mix of some strong brands and well-established mature products, for which the market may be attractive to competitors.		Revenues and gross margins may be adversely affected should competitors launch competing generic or superior (novel) products. Operating costs may increase to protect market share.	We are increasing focus on lifecycle management strategies for our key brands. We monitor new product registrations and competitor launches and develop commercial and marketing responses accordingly to mitigate competitor impact. We are continuing to seek to strengthen our product portfolio through strategic partnerships and we are exploring a number of opportunities, including novel pharmaceuticals.	M	
Portfolio risk Approximately 45% of the Group's revenues are derived from products sourced from our distribution partners, which are heavily driven by the associated contractual terms.		Loss of one or more distribution contracts may reduce overall sales. Where we are successful in developing and growing the market, the distribution partner may terminate the contract, resulting in lost sales. Distribution may cease due to change of control of the contracting parties.	A New Product Opportunity process is in place to provide robust commercial and contractual assessment of new partner products. Low quality distribution products are subject to the portfolio optimisation. Significant contracts are being reviewed to assess and mitigate business continuity risks.	M	
Product development risk Failure to successfully register and launch products from our pipeline. Projects that initially appear promising may be delayed or fail to meet expected clinical or commercial expectations or face delays in regulatory approval.		Significant delay or failure in launching a product from our own pipeline could adversely affect our ability to deliver revenue expectations. Failure of a development project would result in impairment of intangible assets	Robust pipeline monitoring processes are in place. The pipeline is discussed regularly by senior management, including the CEO and CFO. The Group's objective is to create a balanced pipeline in terms of risk and to establish a broader investment approach to launching new products other than from our own pipeline.	M	

Other risks

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

Financial strength

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

Risk	Link to strategy	Potential impact	Mitigation	Risk level	Trend
Financing/Treasury risk Debt facilities are committed for a finite period of time and we need to plan to renew our facilities before they mature and guard against default. Our loan agreements also contain various covenants with which we must comply.	Strong finances	Investing for growth constrained by lack of access to capital/financial resource and/or reduced profitability.	We continue to focus on maintaining both strong cash conversion and a strong balance sheet with net debt to EBITDA leverage within the 1.0 to 2.0 times range. During the first quarter we have been in discussions with our four syndicate banks to extend our existing banking facilities from 31 March 2022 to 31 March 2025. We have completed renewals with three of the four banks and expect to finalise the remaining documentation with the fourth in early April.	L	Flat
Foreign exchange translation risk The majority of the Group's revenues are denominated in euros. However, the Group's presentational currency is sterling and therefore the reported revenues, profits and net debt levels will be impacted by exchange rates prevailing during the relevant financial period.	Strong finances	There may be variability in our reported results caused by significant fluctuations in the GBP:EUR exchange rate. This may impact our net debt to EBITDA leverage covenant depending on volatility and timing as the income statement and balance sheet may be translated at different rates.	We carry out a central review of foreign currency exposures and we assess possible hedging strategies to mitigate risk via derivatives. Matching currency flows and financing will limit the covenant exposure. The Group presents key financial measures on a CER basis to enable shareholders to assess performance with the impact of foreign exchange eliminated.	M	Flat

Operational performance

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

Our
Principal Risks CONTINUED

Risk	Link to strategy	Potential impact	Mitigation	Risk level	Trend
Supply chain risk As the Group does not own any manufacturing assets, it relies extensively on a large base of third-party manufacturers for supply of finished products, whether our own brands or those sold on behalf of our partners via distribution arrangements.		Any disruption, interruption or failure of supply from our third-party suppliers, whether COVID-19 related or otherwise, could result in lost sales and damage the Group's reputation with its customers. Manufacturing transfers to resolve longer-term supply issues may require additional regulatory approvals, which could result in additional costs and/or delays.	In 2020 we put our actions into place from the high-level risk assessment done in 2019. Some site transfers for key products are completed and some ongoing. This work will further reduce our supplier base and will consolidate key products with suppliers with proven reliable performance. Our stock policies have again been reviewed and we now start work with key suppliers to understand and develop risk mitigation strategies end to end. We are also investing in 'Partner Management' which will strengthen ties with our existing supplier base.	H	↓
IT systems and cyber security risk The Group relies heavily on information technology and key systems to support the business. Risk of cyber attacks and failure of our IT systems.		A general outage of our IT systems may cause disruption to, or prevention of, normal operations, and/or additional costs. Cyber attacks could result in system and business disruption and/or availability of data. Failure to adequately protect customer (and others') data may result in a breach of GDPR legislation.	The Group has maintained focus on mitigating the increasing cyber threat while accommodating remote working practices, including: • Continued investment in our cloud-based IT systems and security tools to safeguard the IT infrastructure. • We engage with security-aware, reliable and certified IT service global providers. • Internal policies surrounding security, user access, change control and the ability to download and install software. • We hold global cyber insurance which provides specialist technical and legal support in the event of a cyber incident. During 2020 we significantly invested in and updated the application on which we run our Identibase business.	H	↑

Strategic priorities

- Strong finances
- Key leadership
- Growth portfolio
- Business development
- Innovative pipeline

Risk key

L Low
M Medium
H High

Trend key

↑ Up
↔ Flat
↓ Down

Regulatory Compliance

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

Risk	Link to strategy	Potential impact	Mitigation	Risk level	Trend
Regulatory risk We operate in a highly regulated animal health environment which is designed to ensure the safety, efficacy, quality and ethical promotion of pharmaceutical products. Failure to meet or adhere to regulatory standards could affect our ability to register, manufacture or promote our products.		Non-compliance with regulatory requirements may result in delays to supply and/or lost sales. Delays in regulatory reviews and approvals could impact the timing of a product launch and impact sales. Brexit has resulted in additional regulatory and quality control requirements and associated costs.	The Group Technical and Regulatory team have established systems and procedures to monitor and maintain compliance. Regular dialogue is maintained with relevant authorities in each country to ensure we maintain a thorough understanding of regulatory changes.	M	→

People

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

Risk	Link to strategy	Potential impact	Mitigation	Risk level	Trend
People risk Failure to structure and resource the business properly to deliver our strategy. We may not be able to attract, develop and retain high-calibre and experienced individuals in key roles.		Failure to structure and resource our business properly could result in: • Loss of expertise. • Potential business disruption. • Insufficient resources to deliver strategy. • High cost of organisational restructuring in certain countries.	We want to focus on key areas that will maximise individual potential and increase organisational capability so that we can position Animalcare as an "Employer of choice" This includes: • A strong Performance Management Process. • A competitive rewards strategy with a consistent and objective benchmarking process. • Personal and Team Development Programmes. • A Global Leadership Mindset "High Challenge High Support" model and Programme. • Use of high-skilled contract staff to bridge short-term gaps in key resource areas.	M	↓

Climate Change

Climate change is a global issue that has implications for our customers, employees, suppliers, partners and, therefore, the Group itself. Moreover, the European Commission has emphasised animal health in its Farm to Fork strategy, a central part of the Green Deal designed to help Europe reach its 2050 climate neutrality objective.

We have carried out an initial assessment of climate change impact, factoring in the European Green Deal, and have concluded that there are likely to be some longer-term risks which would need to be managed. Generally, it is anticipated that climate change will affect the types and prevalence of diseases seen in Europe, notably those caused by parasites, bacteria, viruses and protozoa. An increased emphasis on sustainability in the food system will likely impact the Production Animals sector driven, for example, by a trend towards more plant-based diets, further reductions in the use of anti-microbials and increased stimulus of organic farming.

We also recognise the environmental impact caused by the use of plastics in our business and supply chains and are taking steps to develop more sustainable packaging, which may increase our costs in future.

Our Stakeholders

Our key stakeholders and how we engage with them

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

Our people

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

Stakeholder key interests

- Career development
- Reward and recognition
- Engagement
- Training and development
- Well-being
- Health and safety

How we engage

- Leadership Development programmes
- Financial incentives related to performances in the form of annual bonuses
- Employee incentive plans
- Annual employee engagement survey
- Enhanced internal communications via our 'People Portal'
- Well-being programme- Smile@Animalcare
- Employee assistance programme – 24/7 confidential counselling and information service
- Online teambuilding activities
- Insight Discovery sessions to receive local feedback
- Communication Focus Groups
- Workplace Ambassador Programme
- Mentoring Programme

Customers

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

Stakeholder key interests

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

How we engage

- Visits, virtual meetings and telephone calls with veterinary practices and veterinary groups
- Participation in industry forums and events
- Product launch events
- Technical support and training
- Social media and commercial websites
- Contract negotiation, implementation and management of ongoing relationships

Suppliers and partners

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

Stakeholder key interests

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

How we engage

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

Shareholders

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

Stakeholder key interests

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

How we engage

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

Communities and Environment

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

Stakeholder key interests

- Sustainability
- Animal welfare
- Community

How we engage

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

Our Stakeholders CONTINUED

S172 Statement

The Directors are well aware of their duty under Section 172(1) of the Company Act 2006, to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

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

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

Key Board decisions

At each meeting the Board receives trading, financial and operational updates from the Chief Executive Officer and Chief Financial Officer. In addition to this routine business, the table below sets out the key discussions, decisions and considerations the Board has made during the year to 31 December 2020:

Board discussions and decisions

March

The Board agreed, in consultation with advisers, to follow the FCA's request for all listed companies to delay results in the light of the COVID-19 crisis and agreed to defer the publication of the Group's 2019 Full Year Results, originally scheduled for 31 March 2020.

Considerations
The need to provide transparent and accurate information to the market.

In light of the uncertainty around the impact of the COVID-19 crisis on the operations and performance of the Group, the Board agreed to defer payment of its final dividend.

Considerations
The need to address the interests of shareholders in the context of the long-term, while maintaining appropriate levels of reserves to run the business effectively.

The Board approved the announcement of a trading update to the market.

Considerations
The need to provide transparent and accurate information to the market.

In the light of the uncertainty relating to the COVID-19 crisis on the operations and performance of the Group, the Board agreed to defer the payment of the Executive Directors' bonus awards for FY 2019 and to defer the grant of options under the Long Term Incentive Plan.

Considerations
The need to address the interests of all stakeholders in the context of the long term, while maintaining appropriate levels of reserves to run the business effectively.

May

The Board approved the release of the Group's 2019 Full Year Results.

Considerations
The need to provide transparent and accurate information to the market.

July

The Board considered and approved a trading update to the market.

Considerations
The need to provide transparent and accurate information to the market.

September

The Board held a Group Strategy session with presentations from members of the Senior Leadership and Business Development teams.

Considerations
The need to consider the strategy to ensure for the long-term success of the Company for all stakeholders.

The Board agreed to proceed with pre-launch investment at risk in respect of Daxocox, a novel COX 2 inhibitor, in 2021.

Considerations
The need to invest in growth opportunities for the long-term success of the Company.

The Board agreed to enter into an agreement with Canada-based biotech company Kane Biotech Inc. under which the parties would form STEM Animal Health Inc., a company dedicated to treating biofilm-related ailments in animals.

Considerations
The need to invest in growth opportunities for the long-term success of the Company.

The Board approved release of the Interim Results for the six months ended 30 June 2020.

Considerations
The need to provide transparent and accurate information to the market.

The Board decided to waive the final dividend for 2019 and re-allocate the £1.4m cash preserved to invest in future growth.

Considerations
The need to address the interests of shareholders in the context of the long term, while maintaining appropriate levels of reserves to run the business effectively.

The Board approved an interim dividend of 2p.

Considerations
The need to address the interests of shareholders in the context of the long term, while maintaining appropriate levels of reserves to run the business effectively.

November

Following the deferral of awards under the Long Term Incentive Plan (LTIP) in March 2020, the Board approved the grant of options to Executive Directors and certain members of the Senior Leadership Team under the LTIP, subject to agreed performance criteria.

Considerations
The need to provide performance-related awards to incentivise senior management to successfully deliver our strategic plan.

December

The Board approved the Budget for FY 2021.

Considerations
The need to consider all shareholders so that they all benefit from the successful delivery of our strategic plan.

The Board agreed to appoint Stifel as Joint Broker and NOMAD following completion of the necessary on-boarding procedures.

Considerations
The need to consider growth opportunities for the long-term success of the Company.

The Board agreed to carry out its internal 2020 Board evaluation process.

Considerations
The need to ensure that the Board remains a high-performing team for the benefit of our stakeholders.

Board of Directors

Jan Boone

Non-Executive Chairman

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

Committees:
Jan is a member of the Audit and Risk Committee and the Remuneration and Nomination Committee.

Responsibilities, relevant skills and experience:
As Chairman, Jan provides leadership of the Board, promoting a culture of openness and debate. He is Chief Executive Officer of Lotus Bakeries which is listed on Euronext Brussels and he brings significant experience of M&A, strategic development and change management.

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

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

Jennifer Winter

Chief Executive Officer

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

Committee membership:
None; she attends some Committee meetings by invitation.

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

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

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

> "We have developed our governance structure to support the Group's long-term success and strategy for growth."
>
> **Jan Boone, Non-Executive Chairman**

Chris Brewster

Chief Financial Officer and Company Secretary

Appointment:

Chris was appointed Chief Financial Officer in 2012.

Committee membership:

None; he attends the Audit and Risk Committee by invitation

Responsibilities, relevant skills and experience:

As CFO, Chris has responsibility for financial planning and reporting, managing financial risk and overseeing risk management, treasury and internal controls. He develops and executes Group strategy in collaboration with the CEO, leading on the financial side of M&A and investor relations. He is also responsible for Group IT and Legal.

As a Chartered Accountant, Chris brings significant financial experience gained during his ten years at KPMG and as Group Accounting Manager at Findus and has gained significant animal health sector experience during his time with the Group.

Chris Cardon

Non-Executive Director

Appointment:

Chris was Chief Executive Officer of Ecuphar NV until its acquisition by the Group in 2017 and was an Executive Director of the Group until his move to a non-executive role in 2019.

Committee membership:

None

Relevant skills and experience:

As a Non-Executive Director, Chris brings significant experience of the animal healthcare sector and business development. He has a strong entrepreneurial background, establishing Mooss-Pharma NV in 1996. In 2001, when the OTC assets of Mooss-Pharma were acquired by Omega Pharma NV, Chris then founded Ecuphar NV to capitalise on opportunities identified in the animal health sector. He grew the company through a successful focus on product portfolio development until its acquisition by the Group in 2017.

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

Committee membership

Audit and Risk Committee

Remuneration and Nomination Committee

Chair of committee

By invitation

Board of Directors CONTINUED

Marc Coucke

Non-Executive Director

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

Committee membership:
Member of the Remuneration and Nomination Committee

Relevant skills and experience:
As a Non-Executive Director, Marc brings significant experience of maximising value creation and developing strategy. Marc founded Omega Pharma NV in 1987, developing the company into a leading pan-European OTC health and personal care business and serving as both Chairman and Chief Executive Officer. Following the sale of Omega Pharma in 2015, he invests via his private investment firm, Alychlo NV, in several listed and non-listed companies. He currently serves as Chairman of Mithra Pharmaceuticals and as Non-Executive Director of Fagron, both Belgian companies, in addition to a number of private companies.

Marc was awarded the EY Flemish Entrepreneur of the Year in 2002.

Nick Downshire

Independent Non-Executive Director

Appointment:
Nick joined the Board of Animalcare in 2008 when it was acquired by Ritchey plc.

Committee membership:
Chairman of the Audit and Risk Committee

Relevant skills and experience:
As a Non-Executive Director, Nick brings significant financial and audit experience and provides objectivity and analysis in chairing the Audit and Risk Committee. Nick is a qualified chartered accountant and worked in corporate finance and venture capital before becoming the finance director of a software company. He has held non-executive directorships in a diverse range of businesses in the insurance, agricultural, hospitality, education and technology sectors.

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

Committee membership

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

Ed Torr

Independent Non-Executive Director

Senior Independent Director

Appointment:

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

Committee membership:

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

Relevant skills and experience:

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

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

He is Non-Executive Chairman of Agrimin Limited. In June 2020, he was appointed as a Non-Executive Director of Intervacc AB, a Swedish biotechnology company listed on Nasdaq Stockholm.

Corporate Governance Statement

Jan Boone
Non-Executive Chairman

> **Strong governance is key to building a successful business."**

An introduction from our Chairman

As a Board, we recognise that strong governance is key to building a successful business and we have developed our governance structure to support the Group's long-term success and strategy for growth.

We continue to apply the principles of the QCA Corporate Governance Code (the "QCA Code"). Our Corporate Governance Report on pages 42 to 45 sets out how we apply the QCA Code principles and explains how our Board and Committees operates.

The principles of corporate governance

Compliance with the QCA Code

The Board believes that it applies the ten principles of the QCA Code. We recognise the need to continue to develop our governance practices and disclosures in order to ensure that they support the growth and strategic progress of the Group and the effective application of the principles going forwards. Our governance structure provides a framework of clearly established roles, policies and procedures designed to support our compliance with the QCA Code, the AIM Rules and other legal, regulatory and compliance requirements which apply to the Group. The Board regularly reviews the structure to ensure that it develops in line with the growth and strategic plans of the Group. Further details of our corporate governance structure and activities are set out in our Corporate Governance report on pages 42 to 45.

Deliver growth

The Board has collective responsibility for setting the strategic aims and objectives of the Group and our strategy is articulated on pages 10 to 13 and on our website, along with our business model on pages 16 and 17. 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. During the year, we have undertaken a review of the Group's risk management framework and have set out details of our updated framework in our Principal Risks section on page 27 to 31.

Dynamic management framework

The challenges presented by the COVID-19 pandemic, with travel restrictions and the requirement for COVID-safe working environments, have obviously impacted on the Board's activities during the year. However, our positive culture and robust governance framework have enabled the Board to act quickly and support the Executive team in making important decisions. In making those decisions, the Board has been mindful of the impact on our stakeholders. Our statement setting out how the Directors have discharged their duty under s172 of the Companies Act 2006, which includes a description of how the Company has engaged with its key stakeholders, is set out on page 34 of the Strategic Report.

The Company operates an open and inclusive culture and this is reflected in the way that the Board conducts itself. Prior to the COVID-19 pandemic, the Non-Executive Directors attended the Group's offices and other Group events and it is intended that this practice will continue once travel and group meeting restrictions have been lifted. With a relatively small employee base, such interactions mean it is relatively straightforward for the Board to promote and assess the desired corporate culture. The Board recognises the importance of promoting an ethical culture by leading from the top. The Group's Code of Conduct which is applicable to the Board and all employees is our guide to doing business in the right way. It is complemented by more detailed rules and guidelines which are included in policies that cover the following areas: Good Business Practice, Respecting People, Safeguarding Information and Use of Information Technology. The Board also recognises the need to maintain a proactive focus on culture as the Group grows and we will continue our focus on corporate culture during the coming year. A more detailed explanation of the Board's monitoring of culture is explained on page 45.

During the year, we continued to monitor the composition of the Board and consideration has been given to the appointment of an additional non-executive director at the appropriate time. Future appointments will continue to be on merit, with due consideration given to the need for diversity, and to complement the existing balance of skills and experience on the Board.

As Chairman, I consider the operation of the Board as a whole and the performance of the Directors individually. We are currently conducting a Board evaluation process. The Board will review and discuss the responses received and agree an action plan to take forward any recommendations.

Build trust

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

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

Board capabilities

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

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

Jan Boone
Non-Executive Chairman

30 March 2021

Corporate Governance Report

Composition of the Board

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

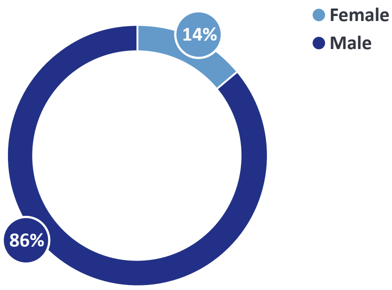
The Board currently comprises two Executive Directors and five Non-Executive Directors. The biographies of the current Directors can be found on pages 36 to 39.

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

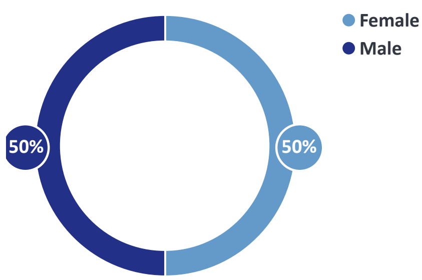
The Board recognises the benefits of diversity, including gender balance, and is committed to creating an inclusive culture, free from discrimination of any kind, and this extends to Board appointments.

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

Board gender diversity



Senior Executive Team



The Board also recognises that as the Group evolves, the mix of experience and skills on the Board may change and the Board composition will need to reflect that change. The Remuneration and Nomination Committee has responsibility for succession planning for Board Directors and other Senior Executives and will increase its focus on this area as the Board and Senior Executive Team develops. Members of the Senior Executive Team and wider management team are invited to present at Board meetings throughout the year.

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

Independence

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

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

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

Appointments to the Board and re-election

The Board has delegated to the combined Remuneration and Nomination Committee the tasks of reviewing Board composition, searching for appropriate candidates and making recommendations to the Board on candidates to be appointed as Directors. Further details on the role of the Remuneration and Nomination Committee are set out in its report on page 49.

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
- Changes to Board membership or structure

Board meetings

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

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

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

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

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

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

Board decisions and activity during the year

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

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

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

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

Corporate Governance Report CONTINUED

Details of the Board's key discussions and stakeholder considerations are set out in the Strategic report on pages 34 to 35.

The Board Committees

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

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

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

Leadership / Senior Executive Team

As detailed in the CEO Review, in January 2021, we unveiled a new organisation structure designed to support delivery of our growth strategy, resulting in the move to a smaller and highly experienced Senior Executive Team (SET) comprising the CEO, CFO, North and South Region Directors, Group HR Director, Group Commercial Director and the newly created role of Strategic Product and Business Development Director. The team meets monthly and its responsibilities include tracking financial performance, progress against our strategic and operational objectives, leadership development, improving employee engagement and all aspects of the operational leadership of the organisation.

External advisers

The Board seeks advice on various matters from its nominated adviser, and broker and corporate finance adviser, Panmure Gordon & Co, from its lawyers, Squire Patton Boggs, and from its corporate governance and company secretarial adviser, Prism Cosec, which also provides company secretarial support. On 1 February 2021, the Company announced the appointment of Stifel Nicolaus Europe Limited as the Company's nominated adviser and joint broker. Panmure Gordon continues to act as joint broker.

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.

Risk management

The Board has ultimate responsibility for the Group's risk appetite and risk management strategy and for reviewing the effectiveness of the Group's risk management structure. Oversight of risk management is undertaken by the Audit and Risk Committee which reports to the Board three times a year. During the year, the Audit and Risk Committee recommended a review of the risk management structure with a focus on risk reporting. Further details of the review and the strengthened risk management framework are set out in the Audit and Risk Committee Report on page 46 and in Our Principal Risks in the Strategic Report on pages 27 to 31.

Internal controls

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

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

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

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

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

Board evaluation

The Board is conducting a formal performance evaluation process by way of a detailed questionnaire completed by each member of the Board to obtain the Directors' views on the effectiveness of the Board, its committees and on key governance areas. The responses will be collated and reviewed by the Chairman and a summary of the results presented to the Board at its June meeting.

Succession planning

The Remuneration and Nomination Committee considers the issue of succession planning. Further details can be found in the Committee's report on page 49.

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.

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.

Culture

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

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

The Board understands how important it is that it leads by example. The Group's Code of Conduct which is applicable to the Board and all employees is our guide to doing business in the right way. It is complemented by more detailed rules and guidelines which are included in policies that cover the following areas: Good Business Practice, Respecting People, Safeguarding Information and Use of Information Technology.

Board meetings are at different business units through the year which gives the Board the opportunity to engage with members of the management team and the wider employee base at meetings, lunches and dinners. During 2020, this practice was hindered by COVID-19 restrictions; the Board intends to reinstate these opportunities to engage with managers and the wider team as soon as possible as such interactions provide valuable insight into our corporate culture and assists the Board in monitoring and promoting a healthy culture throughout the business.

The Board also receives a report on the results of the annual employee engagement survey and the actions planned to address any issues raised.

We recognise the need to maintain a proactive focus on culture as the Group grows and we will continue our focus on corporate culture during the coming year.

Relations with shareholders

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

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

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

Employee engagement

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

During the year, the Group launched a number of new initiatives to enhance employee engagement. To support and maintain engagement with employees during the early stages of the pandemic, a COVID-19 survey was conducted to understand how teams felt supported by the Company and their direct line managers, and to understand any concerns or areas that required improvement. Regular catch-up calls were organised by Country Managers with their teams and regular online teambuilding activities were organised to engage and support employees.

To aid personal and team development, Insights Discovery sessions were set up to develop an environment of trust where people speak up and give honest feedback, learn about self-awareness and team awareness, thereby helping to improving the team communication and performance.

To support teams on their wellbeing, the Group launched an Employee Assistance Programme, which included a confidential counselling and information service to assist employees with personal or work-related challenges that may affect health, well-being or performance. This service offers employees 24 hours a day, 365 days a year access to telephone counselling, information services and free access to short-term face-to-face counselling with a professional counsellor.

Our 2020 Employee Engagement survey results showed an overall improvement on the 2019 results with an 11% increase in engagement levels despite the challenges of COVID-19. In particular, positive results were seen in terms of employee recognition, involvement in decisions affecting employees and the process of regular feedback across the Group.

Key focus areas for 2021 include the implementation of a cross-country communication focus group to allow our teams to feed into how we communicate, a talent management programme and a mentoring programme where senior leaders can mentor less experienced leaders. The Group also plans to launch a Workplace Ambassador Programme, with a cross-country group of employees from different departments, who will meet regularly with the Group HR Team to feed back ideas from the teams, update on employee wellbeing and engagement and to flag local concerns.

Annual General Meeting

The Company's Annual General Meeting ("AGM") is scheduled to be held on Wednesday 9 June 2021. Further details of the arrangements for the AGM can be found in the Notice of 2021 Annual General Meeting which is available on the Company's website www.animalcaregroup.com/investors/shareholder-centre/agm/

Audit and Risk Committee Report

Nick Downshire
Chairman of the Audit and Risk Committee

"As Chairman of the Audit and Risk Committee, I am pleased to present the Committee's report for the year ended 31 December 2020."

On behalf of the Board, I am pleased to present the Audit and Risk Committee's report for the year ended 31 December 2020.

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

Members of the Audit and Risk Committee

The Committee comprises three independent Non-Executive Directors:

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

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

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

Duties

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

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

- To 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 report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

The Committee reviews its Terms of Reference annually and the Board approved the current Terms of Reference on 9 December 2020.

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

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

Activities undertaken by the Committee during the year

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

- Review of the 2019 financial statements and Annual Report
- Consideration of the impact and risk of COVID-19 on cash flows and liquidity of the Group
- Consideration of the external audit report and management representation letter
- Going concern and liquidity risks review
- Review and approval of the interim results
- Assessment of the need for an internal audit function
- Meeting with the external auditor without management present
- Review of the 2020 audit plan and audit engagement letter
- Review of external audit findings
- Review of auditor objectivity and independence and audit fees
- Litigation report and update
- Annual Review of Committee terms of reference

Review of Risk Management Framework

During the year, the Committee requested a review of governance with a focus on risk reporting. An advisory firm specialising in risk, The Value Circle, was appointed to undertake the review and to make recommendations to strengthen the risk management framework. As a result of this review, the Group has further strengthened its risk management framework built around the "Three Lines of Defence" model, ensuring that all parts of the business are engaged in the risk management process. Further details of the approach and how the framework has been strengthened are set out in Our Principal Risks on pages 27 to 31. The Committee reviews the Strategic Risk Heatmap and Horizon Scan and reports to the Board on its review three times a year. The Committee is satisfied that the strengthened risk management framework will enable the Board to monitor, manage and mitigate the critical risks in our strategic plan to the benefit of our stakeholders.

Audit and Risk Committee Report CONTINUED

COVID-19
During the year, the Committee considered the impact and risk of COVID-19 on the cash flows and liquidity of the Group, particularly in relation to the preparation of the Group's financial statements on a going concern basis. It assessed the future prospects of the Group, taking into account the Group's current financial position and principal risks and considering forecasts of future trading, including working capital and investment requirements for 12 months from the reporting date, that take into account reasonably possible changes in trading performance, in particular a 'severe but plausible' downside scenario in respect of the potential impact of COVID-19 post year end. Further details are included in the Chief Financial Officer's review and note 3 Summary of Significant Accounting Policies.

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

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

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

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

Significant issues considered in relation to the financial statements
As part of the monitoring of the integrity of the financial statements, significant issues and accounting judgements identified by the finance team and the external audit process are then reviewed by the Committee and reported to the Board. The significant issues considered by the Committee in respect of the year ended 31 December 2020 are set out below:

Carrying value of goodwill and intangible assets of the Group and the carrying value of investments held by Animalcare Group plc	Consideration of the carrying value of goodwill and intangibles assets and the assumptions underlying the impairment review. The judgements in relation to the valuation primarily relate to the assumptions underlying the cash flows of the long-term business plans, including revenues from the R&D pipeline, the discount rate and the long-term growth rate. The assumptions are sensitised to demonstrate there is adequate headroom between the recoverable amount and the carrying value of the asset being tested for impairment.
Recognition and valuation of judgemental provisions	Determining the appropriateness of the assumptions used in the recognition and valuation of judgemental provisions which relate mainly to inventory, customer rebates, restructuring and integration.
Presentation of underlying profit adjustments	A review of the appropriateness of items disclosed as non-recurring items, including amortisation of acquired intangibles, restructuring and integration costs.
Accounting and disclosure for the acquisition of STEM Animal Health and associated licensing deal with Kane Biotech	A review of the Purchase Price Allocation exercise prepared by a third party and appropriateness of the accounting and disclosures in relation to the equity accounting and licensing arrangements.

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

Risk management and internal controls
The Committee is responsible for reviewing the risk management and internal control framework and ensuring that it operates effectively. As explained above, the Group has strengthened its risk management framework during the year. Further details of the Group's system of internal controls can be found in the Corporate Governance report on page 44. The Committee is satisfied that the risk management framework and internal control systems are operating effectively.

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

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

Nick Downshire
Chairman of the Audit and Risk Committee

30 March 2021

Remuneration and Nomination Committee Report

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

Members of the Remuneration and Nomination Committee

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

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

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

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

Duties

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

Nomination

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

Remuneration

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

Principal activities during the year

The Committee considered the following matters:

- Review of Executive Directors' remuneration
- Review of Non-Executive Directors' fees
- Performance criteria for the Long Term Incentive Plan ("LTIP") and future awards under the LTIP
- Review of performance of the Executive Directors
- Review of Board composition
- Succession planning
- Board evaluation
- Re-election of Directors at the AGM
- Review of the Committee's terms of reference
- Training and Development requirements of Directors
- Review of Non-Executive Directors' time commitment
- Review of Committee plan for 2021

Activities in 2021

The Committee approved a salary increase of 2% for the Executive Directors, Jennifer Winter and Chris Brewster, with effect from 1 January 2021, which was in line with the average increase for the wider workforce.

The Committee has started a process to benchmark remuneration for Executive Directors and the Senior Executive Team. The Committee will also give consideration to Board composition, in particular with regard to the number of independent Non-Executive Directors.

COVID-19

Due to the uncertainty during the outbreak of the COVID-19 pandemic, the Executive Directors agreed in March 2020 to the deferral of the payment of their FY2019 bonuses. In September 2020, the Remuneration and Nomination Committee agreed that, in recognition of the Executive Directors' performance in 2019 and their management of the business through the challenging environment of the COVID 19 pandemic from March 2020, the FY2019 bonus payments would be paid to the Executive Directors.

Grant of options under the Long Term Incentive Plan (LTIP) would usually be made after the announcement of the final results for the previous financial year. However, due to the outbreak of the pandemic and the Board's decision to defer the payment of a final dividend, these grants were deferred. A grant of nil-cost options under the LTIP were made in November 2020, details of which are set out on page 53.

Activities for 2021

The Committee has considered the FY2020 bonus awards for the Executive Directors and reviewed performance against Group financial performance targets (75% weighting) and personal objectives (25% weighting) relevant to their own areas of responsibility. The Committee noted that not all financial performance criteria were met due to the impact of the COVID-19 pandemic; as a result the Committee agreed to award 50% of the Group financial performance element of the bonus award. The Committee agreed that personal objectives had been met in full.

Further details on the annual bonus are set out in the Directors' Remuneration Report on page 50.

Diversity

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

The Board recognises the benefits of diversity, including gender diversity, on the Board. Appointments will be made on merit but with due consideration to the need for diversity and to ensure there is an appropriate balance of skills and experience within the Board. The Board currently consists of 86% (six) male and 14% (one) female members. The Senior Executive Team currently consists of 50% (three) male and 50% (three) female members.

Ed Torr

Chairman of the Remuneration and Nomination Committee

30 March 2021

Directors' Remuneration Report

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

This report covers the financial year ended 31 December 2020.

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 49.

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. There were no changes to base salaries during the year.

Annual bonus

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

For the CEO, 75% of the bonus award is aligned to achievement of Group financial performance targets (budgeted revenue (30%) and EBITDA (30%)) and 25% is dependent on achievement of personal objectives. The maximum bonus opportunity is 50% of salary.

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

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 24 June 2017 which is available on the Company's website (www.animalcaregroup.com).

Grant of options under the LTIP would usually be made after the announcement of the final results for the previous financial year. However, due to the outbreak of the COVID-19 pandemic and the Board's decision to defer the payment of a final dividend, the grants were deferred for consideration later in the year. On 17 November 2020, the Board approved the grant of nil-cost options under the LTIP over a total of 377,120 ordinary shares with a nominal value of 20p per share ("the Options") to be awarded to the Executive Directors and to members of the Leadership Team. Details of the nil-cost options granted to the Executive Directors are set out on page 53.

The LTIP awards will normally vest three years after the date of grant subject to the following performance criteria being met over the three-year financial period ending 31 December 2023. The Options will vest to the extent the following performance conditions based on EPS and TSR are met:

Earnings Per Share growth	Extent to which EPS tranche will vest
Less than 3%	0%
3%	25%
8%	100%
Between 3% and 8%	Between 25% and 100% on a straight-line basis

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

50% of the option award will be subject to the EPS performance condition and the remaining 50% will be subject to the TSR performance condition. Accordingly, if one of the performance conditions is met but the other is not, the Option award will vest in part. The details of the LTIP are set out in note 26 to the consolidated financial statements.

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

Other benefits

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

Service agreements and termination payments

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

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

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

Letters of appointments

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

Director	Date of contract	Renewed on	Term expires	Notice period by Company	Notice period by Director
Jan Boone	17 June 2017	30 June 2020	2023 AGM	3 months	3 months
Nick Downshire	17 June 2017	30 June 2020	2023 AGM	3 months	3 months
Ed Torr	17 June 2017	30 June 2020	2023 AGM	3 months	3 months
Marc Coucke	17 June 2017	30 June 2020	2023 AGM	3 months	3 months
Chris Cardon[1]	24 July 2019	–	2023 AGM	3 months	3 months

1. Chris Cardon was an Executive Director of the Company from 17 June 2017 until 24 July 2019.

Employees' pay

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

Non-Executive Directors

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

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

Remuneration policy for 2021

The remuneration policy for 2021 will operate as follows:

	Role	Basic salary/ fee £'000s	Maximum bonus potential
Executive			
Jennifer Winter	Chief Executive Officer	306	50%
Chris Brewster	Chief Financial Officer	209	40%
Non-Executive			
Jan Boone	Chair	70	–
Nick Downshire	Chair of Audit and Risk Committee	40	–
Ed Torr	Chair of Remuneration and Nomination Committee	45	–

Statutory Information

The following information includes disclosures required by the AIM Rules and UK company law in respect of Directors who served during the year to 31 December 2020.

Directors' remuneration

The following table summarises the gross aggregate remuneration of the Directors who served during the year to 31 December 2020:

£'000		Salary and fees	Annual bonus	Benefits	Pension	Total
Executive Directors						
Jenny Winter[1]	**2020**	**300**	**94**	**14**	**–**	**408**
	2019	285	71	14	–	370
Chris Brewster[2]	**2020**	**205**	**51**	**13**	**25**	**294**
	2019	205	41	13	25	284
Non-Executive Directors						
Jan Boone	**2020**	**70**	**–**	**–**	**–**	**70**
	2019	70	–	–	–	70
Chris Cardon[3]	**2020**	**35**	**–**	**–**	**–**	**35**
	2019	159	–	–	–	159
Marc Coucke	**2020**	**40**	**–**	**–**	**–**	**40**
	2019	40	–	–	–	40
Nick Downshire	**2020**	**40**	**–**	**–**	**–**	**40**
	2019	40	–	–	–	40
James Lambert[4]	**2020**	**–**	**–**	**–**	**–**	**–**
	2019	20	–	–	–	20
Ed Torr[5]	**2020**	**45**	**–**	**–**	**–**	**45**
	2019	43	–	–	–	43
Total	**2020**	**735**	**145**	**27**	**25**	**932**
	2019	862	112	27	25	1,026

1. Jennifer Winter's salary was increased from £285k to £300k with effect from 1 January 2020. Benefits comprise a car allowance (£10k) and private medical insurance (£4k).
2. Chris Brewster's benefits comprise a car allowance of (£10k) and private medical insurance (£2.5k).
3. From 1 January to 23 July 2019, Chris Cardon's salary was £250,000. On his change of role to Non-Executive Director on 24 July 2019, it was agreed that he would receive an annual fee of £35,000, which was prorated for 2019 from the date of his change of role. Prorated salary for 2019 was converted to GBP at the Group 2019 average rate of £1:€1.14. The fee for 2020 were calculated in GBP and paid in euro at the Group 2020 average rate of £1:£1.14.
4. James Lambert resigned as a director on 25 June 2019.
5. Ed Torr receives an annual fee of £40,000 and an additional fee of £5,000 for his chairmanship of the Remuneration and Nomination Committee. In 2019, the Committee fee was prorated following his appointment as Committee chair.

Share options

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

	Date of grant	First exercise date	Number of LTIP nil cost options awarded	Total options held
Jennifer Winter	06/06/19	06/06/22	177,750	
	17/11/20	31/12/23	165,761	
				343,511
Chris Brewster	06/06/20	06/06/23	76,636	
	17/11/20	31/12/23	66,848	
				143,484

During the year, a total of 144,511 options over ordinary shares were also granted to members of the former Leadership Team.

Directors' interests in the share capital of the Company

The Directors' interests in the share capital of the Company as at 31 December 2020 and the movements during the year are set out below:

Director	Number of shares held as at 1 January 2019	Acquired/ (disposed) during the period	Number of shares held as at 31 December 2020	Percentage of ISC as at 31 December 2020
Jan Boone	50,171	–	50,171	0.08
Chris Brewster	280,513	–	280,513	0.47
Chris Cardon	13,857,213	–	13,857,213	23.07
Marc Coucke	13,857,213	–	13,857,213	23.07
Nick Downshire	1,031,529	–	1,031,529	1.75
Edwin Torr	107,455	–	107,455	0.18
Jennifer Winter	–	–	–	–

In addition, as at 1 January 2020, Nick Downshire had a non-beneficial interest of 190,446 shares; as at 31 December 2020, he had a non-beneficial interest of 190,446 shares.

There were no changes in the Directors' interests in shares between 31 December 2020 and 30 March 2021.

Ed Torr

Chairman of the Remuneration and Nomination Committee

30 March 2021

Directors' Report

The Directors present the Directors' Report, together with the audited financial statements of the Group and the Company for the year ended 31 December 2020.

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 the London Stock Exchange.

The principal activity of the Group during the period was the development, sale and distribution of licensed veterinary pharmaceuticals and identification products and services to companion animal, production animal and equine veterinary markets.

Statutory information contained elsewhere in the Annual Report

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

Results in the Chief Financial Officer's review on pages 22 to 26.

The Corporate Governance statement on page 40.

The Group's financial risk management objectives in the Corporate Governance Report on pages 42 to 45.

The Directors' remuneration report can been found on pages 50 to 53.

Details of the Company's exposure to price risk, credit risk, liquidity risk and cash flow risk can be found in note 24 of the Financial Statements.

Details of the salaries, bonuses, benefits and share interests of Directors in the Directors' Remuneration Report on pages 50 to 53.

Section 172 statement, the key issues and stakeholder considerations discussed by the Board during the year and how the Company engages with its stakeholders are set out on page 34 of the Strategic Report.

Directors' responsibility statements on page 57.

Likely future events are disclosed within the Strategic Report on pages 20 to 26.

Post balance sheet events are set out in the Strategic Report on page 26 and in note 29.

Dividend

On 25 March 2020, the Group announced that payment of the final dividend had been deferred with the aim of supporting our financial strength and providing a platform to continue progressing opportunities during the global COVID-19 pandemic. This decision by the Board had the effect of retaining an additional approximately £1.4m in cash. As announced in September 2020, the Board reviewed this deferral and decided to retain the £1.4m to support investment for growth, a proportion of which were and will be invested in Stem Animal Health Inc, the Group's new venture with Kane Biotech Inc.

An interim dividend of 2 pence per share was paid on 20 November 2020.

Reflecting the Board's continued confidence in the Group, as well as the resilient performance for the year ended 31 December 2020, the Directors are recommending a final dividend of 2.0 pence per share, giving a total dividend for the year of 4.0 pence per share. The final dividend will be paid on 2 July 2021, subject to shareholder approval at the Company's 2021 AGM, to shareholders on the register at close of business on 4 June 2021.

Directors

The names of the current Directors of the Company and their biographical details are shown on pages 36 to 39. There were no changes to directorships during the reporting period.

Share capital structure

The Company's issued share capital as at 31 December 2020 was £12,011,432.20 divided into 60,057,161 ordinary shares of 20 pence each. There were no changes to the Company's issued share capital during the year or between 31 December 2020 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.com).

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

Authority for the Company to purchase its own shares

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

At the AGM on 30 June 2020, the Company was generally and unconditionally authorised by its shareholders to make market purchases (within the meaning of section 693 of the Companies Act 2006) of up to a maximum of 6,005,716 of its ordinary shares. The Company has not repurchased any of its ordinary shares under this authority, which is due to expire on the date of this year's AGM.

Research and development

Our new product development programme is key to the future long-term growth and success of the Group and we are committed to the development of new and innovative products to meet the needs of our customers. Further information in relation to product development can be found in the Chief Executive Officer's Review. During the period under review, the Group incurred research and development expenditure, including additions to intangibles of £4.0m (2019: £4.7m).

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 24 to the Consolidated Financial Statements on page 98.

Directors' indemnities and liability insurance

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

The Group purchases and maintains directors' and officers' liability insurance for the benefit of its Directors, which was in place throughout the year ended 31 December 2020 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 (2019: £nil).

Modern Slavery

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

Stakeholder engagement and key decisions

Details of the key decisions and discussions of the Board during the year and the main stakeholder inputs into those decisions are set out in the Strategic Report on pages 32 to 35.

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.

In response to the COVID-19 pandemic, the Company initiated a new Employee Assistance Programme in 2020, providing all employees with comprehensive 24/7 support and wellbeing services. Further details on employee engagement and our culture can be found on page 45.

Environment

We are aware of the impact our business has on the environment and it is our aim to ensure that we minimise any adverse impacts from our operations.

Given the nature of its activities, the Group's direct impact on the environment is relatively modest. Nonetheless, policies and standards are in place which aims to minimise this impact wherever possible. These include:

- Compliance with all relevant national legislation as a minimum standard
- Employment of practical energy efficiency and waste minimisation measures
- Policies in relation to purchase and use of vehicles to minimise environmental impact
- Provision of Office 365 across the Group, including communications and video conferencing to reduce business travel.

Greenhouse gas emissions and kWh consumption data for the financial year for Animalcare Ltd, the Group's UK trading subsidiary, is set out below:

Scope	Activity	Tonnes CO_2e	kWh
Scope 1	Company car travel	20.2	83,998
Scope 2	Grid-supplied electricity	10.3	44,127

Energy Intensity measure

Tonnes CO_2 per £m revenue

Tonnes CO_2e	
2020	2.1

Directors' Report CONTINUED

We have used the UK Government GHG Conversion Factors for Company Reporting 2020 to calculate our total CO_2 emissions figures.

Animalcare Ltd has achieved carbon neutral status as part of its commitment to run its business sustainably. The Company undertook a detailed assessment of its carbon emissions in 2020 and has worked to reduce them, while also instituting offsetting measures, such as tree-planting, to enable it to become carbon neutral. Animalcare's carbon emissions assessment report was undertaken by Carbon Footprint Ltd. Some of its highest carbon-emitting activities related to business travel and have been reduced as a result of the COVID-19 pandemic but Animalcare is continuing to adopt measures, such as virtual meetings, to ensure that emissions in this area do not rise again once travel restrictions are lifted.

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 1 March 2021:

Name of holder	No. of ordinary shares	% holding
Alychlo NV	13,857,213	23.07
Ecuphar Invest NV	13,857,213	23.07
Liontrust Asset Management	6,975,389	11.61
BGF Investment Management Limited	2,153,331	3.58
Canaccord Genuity Wealth Management	2,103,407	3.53

Relationship agreement

On 23 June 2017, the Company entered into a relationship agreement with Panmure Gordon, the Company's nominated adviser and broker as at the date of the agreement 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, save as explained below, 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).

The Relationship Agreement requires the Substantial Shareholders to ensure that there are four independent Non-Executive Directors on the Board at any one time. Since June 2019, there have only been three independent Non-Executive Directors on the Board. Having regard to the composition of the Board and the advice received from the Company's advisers, the Company and the Substantial Shareholders are of the opinion that the provisions in the Relationship Agreement requiring a fourth appointment should be waived while the composition of the Board remains as it is currently, noting that, following the change in Christiaan Cardon's status from Executive to Non-Executive Director, there are five Non-Executive Directors, three of whom are Independent Non-Executive Directors.

The Company changed its nominated adviser in January 2021 and it is proposed that the Relationship Agreement will be amended in due course to reflect this change.

Going concern

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

In reaching this conclusion the Directors have undertaken an assessment of the future prospects of the Group, taking into account the Group's current financial position and principal risks. This review considered forecasts of future trading, including working capital and investment requirements for 12 months from the reporting date that take into account reasonably possible changes in trading performance, in particular a 'severe but plausible' downside scenario in respect of the potential impact of COVID-19 post year end. Further details on the potential impact of COVID-19 and the conclusion thereon are included in the statement on going concern in note 3 on page 70.

Disclosure of information to auditor

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

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

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

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

Annual General Meeting

The Company's Annual General Meeting is scheduled to be held on Wednesday 9 June 2021. The Notice of 2021 Annual General Meeting, including the resolutions to be proposed, is set out in a separate Notice of Meeting which accompanies this report and is available on the Company's website www.animalcaregroup.com/investors/shareholder-centre/agm/

Approval

The Strategic Report on pages 10 to 35 and this Directors' Report on pages 54 to 56 were approved by the Board on 30 March 2021.

Approved by the Board and signed on its behalf by

Chris Brewster
Chief Financial Officer and Company Secretary

30 March 2021

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed for the Group financial statements and international accounting standards in conformity with the requirements of the Companies Act 2006 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 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 keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

Responsibility statement of the Directors in respect of the Annual Financial Report

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 international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic 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

30 March 2021

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 2020 and of the Group's profit and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements 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 2020; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company cash flow statements, and the consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 2 to the Group financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

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

Independence

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

Our audit approach

Overview

Audit scope

- The Group is organised into 12 reporting components and the Group financial statements are a consolidation of these reporting components. The reporting components vary in size.
- We identified five components that required a full scope audit of their financial information due to either their size or risk characteristics. These were Animalcare Group plc, Animalcare Ltd, Ecuphar N.V., Ecuphar Veterinaria S.L. and Ecuphar GmbH. We also audited material consolidation journals.
- One reporting component was also subject to audit procedures over specific balances due to its contribution to the Group's results: cash and cash equivalents for Ecuphar Italia Srl.
- All components were audited by PwC.
- As a result of this scoping we obtained coverage over £56.9 million (80%) of the Group's external revenues and £10.5 million (87%) of the Group's Adjusted EBITDA excluding exceptional items.

Key audit matters

- Risk of impairment to assets – Goodwill and acquired intangible assets (group) and investments (company).
- Impact of COVID-19 (Group and Company).

Materiality

- Overall Group materiality: £302,000 (2019: £325,000) based on 2.5% of Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) excluding exceptional items.
- Overall Company materiality: £210,000 (2019: £245,000) based on 1% of net assets (capped below Group materiality).
- Performance materiality: £226,500 (Group) and £157,500 (Company).

The scope of our audit

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

Capability of the audit in detecting irregularities, including fraud

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

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

- Discussions with management and the Group's legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Enquiries with component auditors;
- Review of correspondence with legal advisers;
- Identifying and testing unusual journal entries which increase revenue, reduce expenditure or reclassify items above or below the EBITDA line to manipulate the financial performance of the business; and
- Assessing key judgements and estimates made by management for evidence of inappropriate bias. The key judgements and estimates for the Group relate to the carrying value of goodwill and acquired intangible assets. Details of our procedures in this area are included in our key audit matters below.

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

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.

Going concern (Group and Company), which was a key audit matter last year, is no longer included because of the Group's performance during the COVID-19 pandemic to date and anticipated compliance with banking covenants. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Risk of impairment to assets – Goodwill and acquired intangible assets (Group) and investments (Company). The Group has £50.9 million (2019: £50.4 million) of goodwill and £24.7 million (2019: £29.8 million) of acquired intangible assets. The parent Company has investments of £147.7 million (2019: £147.7 million). The carrying value of goodwill is assessed by an annual impairment review with both intangible assets at a Group level and the investment held by the parent Company reviewed for indicators of impairment and if needed an impairment review performed. No impairment charge has been recorded by management in the current year for either goodwill and acquired intangible assets within the Group and the investment balance within Animalcare Group plc. The risk we have focused on is that these non-current assets could be overstated and an impairment charge may be required. We focused on this area because the determination of whether or not these non-current assets are impaired involves subjective judgements and estimates about the future results and cash flows of the business. On an annual basis, management calculate the amount of headroom between the value in use of the Group's cash-generating units ("CGUs") and their carrying value to determine whether there is a potential impairment of the goodwill and acquired intangibles relating to those CGUs. The value in use of the CGU with respect to goodwill and acquired intangibles within the Group and the investment held in the parent Company is dependent on a number of key assumptions which include: • Forecast cash flows for the next five years; • A long-term (terminal) growth rate applied beyond the end of the five year forecast period; and • A discount rate applied to the model. Management consider there to be just one CGU and therefore the same valuation performed is used to support the carrying values of the non-current assets for the Group and parent Company financial statements, adjusted to remove the parent Company costs. See the accounting policies section within the financial statements for disclosure of the related accounting policies, judgements and estimates and Note 8 for detailed goodwill disclosures, Note 9 for detailed intangible disclosures within the consolidated financial statements and Note 6 within the Company-only financial statements.	We understood and evaluated management's budgeting and forecasting process. We obtained the Group impairment analysis and tested the reasonableness of the key assumptions, including the following: • We tested the mathematical accuracy of the impairment model and agreed the carrying value of non-current assets being assessed for impairment to the balance sheet; • We challenged management's calculated Group weighted average cost of capital (WACC) used for discounting future cash flows within the impairment model, utilising valuation experts to assess the cost of capital for the Group and comparable organisations; • We traced the forecast financial information within the model to the latest Board approved budget. We have also reconciled FY20 actuals to the FY21- FY25 forecasts and challenged management to provide support to corroborate trading and growth assumptions, support for capital expenditure and considered the accuracy of previous forecasts; • We performed sensitivity analyses to ascertain the impact of reasonably possible changes in key assumptions and to quantify the downside changes needed before an impairment would be required at the CGU level; and • We have reviewed the financial statement disclosures made with respect to the sensitivity of the WACC, cash flows and growth rates. In summary, we found, based on our audit work, the carrying value of goodwill and acquired intangibles, and investments to be acceptable. We also considered the disclosures made within the financial statements and considered these to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Impact of COVID-19 (Group and Company). COVID-19 was declared a global pandemic by the World Health Organisation on 11 March 2020 and the ongoing response is having an unprecedented impact on the economy which has been considered as part of the audit. Whilst the Group has experienced an impact from the pandemic, this has been limited compared to many other sectors. Management has performed an assessment of the continued potential impact of COVID-19, specifically in respect of the preparation of the financial statements on a going concern basis. In performing its assessment, management has modelled potential downside scenarios, including a severe but plausible downside scenario, to assess the potential impact of headroom against its borrowing facilities and financial covenants. Because of its significance to the financial statements and to our audit, we determined that management's consideration of the potential impact of COVID-19 on going concern is a key audit matter.	In assessing management's consideration of the continued potential impact of COVID-19 we have undertaken the following audit procedures: • We obtained from management its latest assessments that support the Board's conclusions with respect to the going concern basis of preparation of the financial statements; • We evaluated management's forecast and downside scenarios and challenged the accuracy and appropriateness of the underlying assumptions. Our evaluation included further sensitivities to management's downside scenarios; and • We reviewed management accounts for the financial period to date and checked that these were consistent with the starting point of management's scenarios and supported the key assumptions included in the assessments. Our conclusion in respect of going concern is included in the 'Conclusions relating to going concern' section below.

How we tailored the audit scope

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

The Group is organised into 12 reporting components and the Group financial statements are a consolidation of these reporting components. The reporting components vary in size. We identified five components that required a full scope audit of their financial information due to either their size or risk characteristics. These were Animalcare Group plc, Animalcare Ltd, Ecuphar N.V., Ecuphar Veterinaria S.L. and Ecuphar GmbH. We also audited material consolidation journals. One reporting component was also subject to audit procedures over specific balances due to its contribution to the Group's results: cash and cash equivalents for Ecuphar Italia Srl.

Our audit scope was determined by considering the significance of each component's contribution to Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA), excluding exceptional items, as well as considering the level of coverage obtained for each individual financial statement line item.

We, as the Group engagement team, audited the two components based in the UK – being Animalcare Group plc and Animalcare Ltd – and also performed the audit work over the cash and cash equivalents balance for Ecuphar Italia Srl. The significant components based overseas, being Ecuphar N.V., Ecuphar Veterinaria S.L., and Ecuphar GmbH, have been audited by PwC component auditors.

The Group audit team supervised the direction and execution of the audit procedures performed by the component teams. Our involvement in their audit process, including attending component clearance meetings, review of their reporting results and their supporting working papers, together with the additional procedures performed at Group level, gave us the evidence required for our opinion on the financial statements as a whole.

Materiality

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

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

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

	Financial statements - Group	Financial statements - Company
Overall materiality	£302,000 (2019: £325,000).	£210,000 (2019: £245,000).
How we determined it	2.5% of Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) excluding exceptional items	1% of net assets (capped below Group materiality)
Rationale for benchmark applied	Based on the benchmarks used in the annual report, Adjusted EBITDA excluding exceptional items is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.	We believe that net assets are considered to be appropriate as it is not a profit-oriented company. The Company is a holding company only and therefore net assets is deemed a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £124,200 and £250,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £226,500 for the Group financial statements and £157,500 for the Company financial statements.

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £15,100 (Group audit) (2019: £16,200) and £1,500 (Company audit) (2019: £12,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the Directors’ assessment of the Group’s and the Company’s ability to continue to adopt the going concern basis of accounting included:

- We assessed management’s base case forecast, as well as its severe but plausible downside scenario, which have formed the basis for the Group’s assessment and conclusions with respect to its ability to continue as a going concern;
- We evaluated the historical accuracy of the budgeting process to assess the reliability of the data;
- We held discussions with management to understand and challenge the rationale behind the assumptions made, using our knowledge of the business and industry;
- We compared the latest trading results for the year to date in 2021 and compared to management’s original budget; and
- We reviewed management’s sensitivity scenarios and we challenged management to run further downside scenarios in order to assess the possible impact of headroom against its borrowing facilities and financial covenants.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group’s and the Company’s ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Ian Morrison
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP

Chartered Accountants
and Statutory Auditors
Leeds

30 March 2021

Consolidated Income Statement

YEAR ENDED 31 DECEMBER 2020

		For the year ended 31 December					
	Notes	Underlying 2020 £'000	Non-Underlying (note 4) 2020 £'000	Total 2020 £'000	Underlying 2019 £'000	Non-Underlying (note 4) 2019 £'000	Total 2019 £'000
Revenue	5	**70,494**	**–**	**70,494**	71,124	–	71,124
Cost of sales	6.1	**(33,935)**	**–**	**(33,935)**	(34,152)	–	(34,152)
Gross profit		**36,559**	**–**	**36,559**	36,972	–	36,972
Research and development expenses	6.2	**(2,386)**	**(1,100)**	**(3,486)**	(2,922)	(1,171)	(4,093)
Selling and marketing expenses	6.3	**(12,325)**	**–**	**(12,325)**	(11,862)	–	(11,862)
General and administrative expenses	6.4	**(13,302)**	**(4,800)**	**(18,102)**	(12,723)	(4,771)	(17,494)
Net other operating (expense)/income	6.5	**15**	**(1,858)**	**(1,843)**	(3)	(4,811)	(4,814)
Operating profit/(loss)		**8,561**	**(7,758)**	**803**	9,462	(10,753)	(1,291)
Financial expenses	6.8	**(1,051)**	**–**	**(1,051)**	(1,856)	–	(1,856)
Financial income	6.9	**540**	**–**	**540**	1,539	–	1,539
Financial net result		**(511)**	**–**	**(511)**	3,395	–	3,395
Share in net loss of joint ventures accounted for using the equity method	11	**(93)**	**–**	**(93)**	–	–	–
Profit/(loss) before tax		**7,957**	**(7,758)**	**199**	9,145	(10,753)	(1,608)
Income tax	6.10	**(1,604)**	**1,639**	**35**	(1,966)	2,236	270
Net profit/(loss)		**6,353**	**(6,119)**	**234**	7,179	(8,517)	(1,338)
Net profit/(loss) attributable to:							
The owners of the parent		**6,353**	**(6,119)**	**234**	7,179	(8,517)	(1,338)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:							
Basic earnings per share	7	**10.6p**		**0.4p**	12.0p		(2.2p)
Diluted earnings per share	7	**10.6p**		**0.4p**	12.0p		(2.2p)

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

Consolidated Statement of Comprehensive Income

YEAR ENDED 31 DECEMBER 2020

	For the year ended 31 December	
	2020 £'000	2019 £'000
Net profit/(loss) for the year	**234**	(1,338)
Other comprehensive income		
Cumulative translation differences*	**508**	(795)
Other comprehensive income/(loss), net of tax	**508**	(795)
Total comprehensive income/(loss) for the year, net of tax	**742**	(2,133)
Total comprehensive income attributable to:		
The owners of the parent	**742**	(2,133)

* May be reclassified subsequently to profit and loss.

Consolidated Statement of Financial Position

YEAR ENDED 31 DECEMBER 2020

	Notes	For the year ended 31 December 2020 £'000	2019 £'000
Assets			
Non-current assets			
Goodwill	8	**50,987**	50,454
Intangible assets	9	**37,812**	43,000
Property, plant and equipment	10	**265**	312
Right-of-use assets	23	**1,790**	1,917
Investments in joint ventures	11	**1,457**	–
Deferred tax assets	6.10	**2,220**	1,524
Other financial assets		**63**	59
Other non-current assets	13	**48**	72
Total non-current assets		**94,642**	97,338
Current assets			
Inventories	12	**12,797**	11,102
Trade receivables	13	**10,142**	10,891
Other current assets	13	**1,589**	2,746
Cash and cash equivalents	14	**5,265**	6,165
Total current assets		**29,793**	30,904
Total assets		**124,435**	128,242
Liabilities			
Current liabilities			
Borrowings	16	**(637)**	(612)
Lease liabilities	23	**(951)**	(830)
Trade payables	15	**(11,348)**	(10,334)
Tax payables		**(553)**	(1,288)
Accrued charges and deferred income	19	**(2,686)**	(2,063)
Other current liabilities	20	**(3,202)**	(2,799)
Total current liabilities		**(19,377)**	(17,926)
Non-current liabilities			
Borrowings	16	**(16,432)**	(21,428)
Lease liabilities	23	**(861)**	(1,106)
Deferred tax liabilities	6.10	**(4,804)**	(5,176)
Deferred income	19	**(556)**	(599)
Provisions	17	**(96)**	(118)
Other non-current liabilities	18	**(717)**	–
Total non-current liabilities		**(23,466)**	(28,427)
Total liabilities		**(42,843)**	(46,353)
Net assets		**81,592**	81,889
Equity			
Share capital	22	**12,012**	12,012
Share premium	22	**132,729**	132,729
Reverse acquisition reserve		**(56,762)**	(56,762)
Accumulated losses	22	**(9,445)**	(8,640)
Other reserves		**3,058**	2,550
Equity attributable to the owners of the parent		**81,592**	81,889
Non-controlling interest	22	**–**	–
Total equity		**81,592**	81,889

The accompanying notes on pages 70 to 103 form an integral part of these consolidated financial statements.

The financial statements of Animalcare Group plc on pages 64 to 103, registered number 01058015, were approved by the Board of Directors and authorised for issue on 30 March 2021. They were signed on their behalf by:

Jennifer Winter
Chief Executive Officer

Chris Brewster
Chief Financial Officer

Consolidated Statement of Changes in Equity

YEAR ENDED 31 DECEMBER 2020

	Attributable to the owners of the parents							
	Share capital £'000	Share premium £'000	Retained earnings/ Accumulated losses £'000	Reverse acquisition reserve £'000	Other reserve £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2020	12,012	132,729	(8,640)	(56,762)	2,550	81,889	–	81,889
Net profit	–	–	234	–	–	234	–	234
Other comprehensive income	–	–	–	–	508	508	–	508
Total comprehensive expense	–	–	234	–	508	742	–	742
Dividends paid	–	–	(1,201)	–	–	(1,201)	–	(1,201)
Share-based payments	–	–	162	–	–	162	–	162
At 31 December 2020	**12,012**	**132,729**	**(9,445)**	**(56,762)**	**3,058**	**81,592**	**–**	**81,592**

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

Reverse acquisition reserve

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

Other reserve

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

Consolidated Cash Flow Statement

YEAR ENDED 31 DECEMBER 2020

	Notes	For the year ended 31 December 2020 £'000	2019 £'000
Operating activities			
Profit/(loss) before tax		**199**	(1,608)
Non-cash and operational adjustments			
Share in net result of joint ventures	11	**93**	–
Depreciation of property, plant and equipment	10/23	**1,243**	1,270
Amortisation of intangible assets	9	**8,149**	8,222
Impairment of intangible assets	9	**19**	1,632
Share-based payment expense	26	**162**	72
(Gain)/loss on disposal of fixed assets		**(16)**	35
Non-cash movement in provisions		**534**	694
Movement allowance for bad debt and inventories		**509**	648
Financial income		**(219)**	(608)
Financial expense		**815**	1,250
Impact of foreign currencies		**(82)**	(330)
Loss/gain on disposal of IFRS 16 and initial recognition		**1**	–
Non-cash movement on transition to IFRS 16	23	**–**	3
Other		**(2)**	(21)
Movements in working capital			
Decrease/(Increase) in trade receivables		**640**	3,098
Decrease/(Increase) in inventories		**(1,615)**	2,492
(Decrease)/increase in payables		**883**	(3,842)
Income tax (paid)/received		**(196)**	99
Net cash flow from operating activities		**11,117**	13,106
Investing activities			
Purchase of property, plant and equipment	10	**(177)**	(48)
Purchase of intangible assets	9	**(2,258)**	(2,343)
Proceeds from the sale of property, plant and equipment (net)		**122**	–
Capital contribution in joint venture	11	**(593)**	–
Net cash flow used in investing activities		**(2,906)**	(2,391)
Financing activities			
Proceeds from loans and borrowings and convertible debt		**(6,002)**	(8,070)
Repayment of loans and borrowings		**(5)**	(30)
Repayment of IFRS 16 lease liability	23	**(1,081)**	(1,053)
Dividends paid	22	**(1,201)**	(2,642)
Interest paid		**(516)**	(617)
Other financial expense		**(53)**	(27)
Net cash flow used in/from financing activities		**(8,858)**	(12,439)
Net decrease/increase of cash and cash equivalents		**(647)**	(1,724)
Cash and cash equivalents at beginning of year	14	**6,165**	8,035
Exchange rate differences on cash and cash equivalents		**(253)**	(146)
Cash and cash equivalents at end of year	14	**5,265**	6,165

	Notes	For the year ended 31 December 2020 £'000	2019 £'000
Reconciliation of net cash flow to movement in net debt			
Net increase in cash and cash equivalents in the year		**(647)**	(1,724)
Cash flow from decrease/(increase) in debt financing		**6,007**	8,100
Foreign exchange differences on cash and borrowings		**(1,290)**	1,336
Movement in net debt during the year		**4,070**	7,712
Net debt at the start of the year		**(17,812)**	(23,588)
Movement in lease liabilities during the year	23	**124**	(1,936)
Net debt at the end of the year		**(13,618)**	(17,812)

Notes to the Consolidated Financial Statement

YEAR ENDED 31 DECEMBER 2020

1. Financial information

Animalcare Group plc ("the Company") is a public company incorporated in the United Kingdom under the Companies Act 2006 and is domiciled in the United Kingdom. The address of its registered office is Unit 7, 10 Great North Way, York Business Park, York, YO26 6RB. The Group comprises Animalcare Group plc and its subsidiaries. The nature of the Group's operations and its principal activities are set out within the Directors' Report. Details of the subsidiaries can be found in note 28.

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, as explained in note 21, in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. 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 judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 3. The accounting policies have been applied consistently.

Changes to significant accounting policies are described in note 3.

The consolidated financial statements cover the year ended 31 December 2020 and compromise the consolidated results of the Group described in note 1.

3. Summary of significant accounting policies

Going concern

An analysis of the factors likely to impact on the Group's future business activities, performance and strategy are set out in the Chief Executive's Review and Chief Financial Officer's Review. The principal risks and uncertainties facing the Group are set out in the Strategic Report on pages 27 to 31. The uncertainty as to the future impact on the Group of the recent COVID-19 outbreak has been considered as part of the Group's adoption of the going concern basis.

At 31 December 2020, the Group's financing arrangements consisted of a committed revolving credit facility of €41.5m, a €10m acquisition line, which cannot be utilised to fund our operations, and €4.1m investment loans. All facilities were due to expire on 31 March 2022. During the first quarter we have been in discussions with our four syndicate banks to extend our existing banking facilities from 31 March 2022 to 31 March 2025. We have completed renewals with three of the four banks and expect to finalise the remaining documentation with the fourth in early April.

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

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

As at 31 December 2020, all covenant requirements were met with significant headroom across all three measures.

In the early part of 2021 demand has been encouraging as both Animalcare and the veterinary market continue to demonstrate resilience during the pandemic. While our trading performance remains robust, the Directors have assessed the principal risks and considered the impact of a "severe but plausible" downside scenario for COVID-19 for the next 12 months as part of the Group's adoption of the going concern basis. The major variables are the depth and the duration of COVID-19 and the Group has run a series of future trading scenarios to June 2022 to factor in a range of downside revenue estimates with mitigating actions on cost and cash flow. These downside scenarios principally mirror the challenging conditions observed during Q2 2020, over a range of time, where the impact of the pandemic was most significant. As demonstrated in H1 2020, our scenario planning also reflects our agility in responding to a downturn via reducing or deferring costs to align with revenue and carefully managing our cash flows.

The outputs from these scenarios indicate that the Group would operate well within its committed revolving credit facility of €41.5m and maintain headroom against all covenant obligations throughout the period to June 2022. Accordingly, the Directors continue to adopt the going concern basis of preparation.

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 as exceptional items.

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

The separate presentation of exceptional and other items enables the users of the financial statements to better understand the elements of trading performance during the year and hence to better assess trends in that performance.

Non-controlling interests

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

Segment reporting

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

Foreign currency translation

Functional and presentation currency

The Group's consolidated financial statements are presented in pounds sterling (GBP) which is the Group's presentational currency. For each entity, the Group determines the functional currency, and items included in the financial statements of each entity are measured using the functional currency. The functional currency of most subsidiaries of the Group is euros. The statement of financial position is translated into GBP at the closing rate on the reporting date and their income statement is translated at the average exchange rate at month-end for both the years ended December 2019 and 2020. 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.

Property, plant and equipment

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

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

• Equipment	5 years
• Office furniture and office equipment	3-5 years or lease term if shorter
• Finance leases	4-5 years
• Leasehold improvements	5 years or lease term if shorter

Land is not depreciated.

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

Leases

The Group leases various vehicles and buildings. Rental contracts are typically made for fixed periods of one year to ten years but may have extension options. Contracts may contain both lease and non-lease components. However, for lease of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

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

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

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

Notes to the Consolidated Financial Statement CONTINUED

YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies CONTINUED

To determine the incremental borrowing rate, the Group:

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

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

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

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

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

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

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Intangible assets

Intangible assets comprise the acquired product portfolios, in-process research and development, licensing and distribution rights and customers 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.

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

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

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

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

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

Intangible assets acquired in a business combination

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

Impairment of non-financial assets

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

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

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

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

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

Investments in joint ventures

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

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

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

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

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

Inventories

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

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

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

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

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

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

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

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

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

Financial assets measured at amortised cost

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

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

3. Summary of significant accounting policies CONTINUED

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Financial instruments measured at fair value through profit or loss

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

- A call option on an additional stake in STEM as disclosed in note 4 on Investments in Joint ventures;

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

Derecognition

A financial asset is derecognised when:

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

Impairment of financial assets

The Group 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.

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

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

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

Financial liabilities

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

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

Derecognition

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

Offsetting of financial instruments

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

Share capital

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

Dividends

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

Share-based payments

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

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

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

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.

OUR FINANCIALS

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 18 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 rate 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 1 January 2016 considering the modified law. Previously, the Group 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 year are shown as other current liabilities.

Employee benefits – Pensions

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

Revenue recognition

Revenue is recognised in a manner that depicts the pattern of transfer of goods and services to our customers. The amount recognised reflects the amount to which the Group expects to be entitled 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 of the stage of completion. Up-front income received in relation to long-term service contracts is deferred and subsequently recognised over the life of the relevant contracts.

Interest income

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

Financing costs

Financing costs relate to interests and other costs incurred by the Group related to the borrowing of funds. Such costs mostly relate to interest charges on short- and long-term borrowings as well as the amortisation of additional costs incurred on the issuance of the related debt. Financing costs are recognised in profit and loss for the year or capitalised in case they are related to a qualifying asset.

Other financial income and expenses

Other financial income and expenses include mainly foreign currency gains or losses on financial transactions and bank-related expenses.

Taxes

Current income tax

Income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

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

Deferred tax

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

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

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

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

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

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a

Notes to the Consolidated Financial Statement CONTINUED

YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies CONTINUED

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 2020

Standards and interpretations applicable for the annual period beginning on or after 1 January 2020:

- Amendments to IAS 1 and IAS 8 Definition of Material
- Amendments to IFRS 3 Business Combinations: Definition of a Business
- Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform – Phase 1
- Amendments to references to the Conceptual Framework in IFRS standards

The Group has no transactions that would be affected by the newly effective standards or its accounting policies are already consistent with the new requirements. The Group has not early adopted any standards.

Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2020

The IFRS accounting standards and interpretations that are issued, but net yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards and interpretations, if applicable, when they become effective. These new standards will have no material impact on the Group's financial statements.

- IFRS 17 Insurance Contracts (applicable for annual periods beginning on or after 1 January 2023, but not yet endorsed in the EU)
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (applicable for annual periods beginning on or after 1 January 2023, but not yet endorsed in the EU)
- Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use (applicable for annual periods beginning on or after 1 January 2022, but not yet endorsed in the EU)
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts — Cost of Fulfilling a Contract (applicable for annual periods beginning on or after 1 January 2022, but not yet endorsed in the EU)
- Amendments to IFRS 3 Business Combinations: Reference to the Conceptual Framework (applicable for annual periods beginning on or after 1 January 2022, but not yet endorsed in the EU)
- Amendment to IFRS 4 Insurance Contracts – deferral of IFRS 9 (applicable for annual periods beginning on or after 1 January 2021, but not yet endorsed in the EU)
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (applicable for annual periods beginning on or after 1 January 2021, but not yet endorsed in the EU)
- Amendment to IFRS 16 Leases: COVID-19-Related Rent Concessions (applicable for annual periods beginning on or after 1 June 2020)
- Annual Improvements to IFRS Standards 2018–2020 (applicable for annual periods beginning on or after 1 January 2022, but not yet endorsed in the EU)

Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities for future periods.

On an ongoing basis, the Group evaluates its estimates, assumptions and judgements, including those related to revenue recognition, development expenses, income taxes, impairment of goodwill, intangible assets and property, plant and equipment and investments in joint ventures.

The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Internally developed intangible assets

Under IAS 38, internally generated intangible assets from the development phase are recognised if certain conditions are met. These conditions include the technical feasibility, intention to complete, the ability to use or sell the asset under development, and the demonstration of how the asset will generate probable future economic benefits. The cost of a recognised internally generated intangible asset comprises all directly attributable cost necessary to make the asset capable of being used as intended by management. In contrast, all expenditures arising from the research phase are expensed as incurred.

Determining whether internally generated intangible assets from development are to be recognised as intangible assets requires significant judgement, particularly in determining whether the activities are considered research activities or development activities, whether the product enhancement is substantial, whether the completion of the asset is technically feasible considering a company-specific approach, and the probability of future economic benefits from the sale or use.

Management has determined that the conditions for recognising internally generated intangible assets from product development activities are not met until shortly before the developed products are available for sale. This assessment is monitored by the Group on a regular basis.

Income taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

As at 31 December 2020, the Group had £1,929k (2019: £759k) 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 £50,987k (2019: £50,454k) 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.

Investment in STEM Animal Health Inc.

On 28 September 2020 the Group announced that it has entered into an agreement with Canada-based biotech company Kane Biotech Inc. under which the parties formed STEM Animal Health Inc. ("STEM"), a company dedicated to treating biofilm-related ailments in animals. The Group acquired a one-third stake in STEM for a cash consideration of CA$3m, payable over 48 months, of which CA$1m was paid during the financial year. The Group has an option, for a period of six years, to acquire an additional one-sixth stake in STEM for CA$4 million.

Separately, we also announced that we had entered into a licensing agreement, under which we will invest a further CA$2m, consisting of an initial payment along with a series of potential payments linked to various milestones, for rights to commercialise products in global veterinary markets outside the Americas.

Both the equity investment in STEM and the licensing fee are expected to be paid from existing cash resources. We expect the agreement to be earnings enhancing in 2022.

In determining the appropriate accounting treatment for STEM, management applied significant judgement. If management's judgements were to change, this would result in consolidating STEM.

The following are the key considerations and judgements applied by management in concluding:

- STEM established during 2020 with a global licence over Kane Biotech's existing range of animal health oral care products, where Kane grants STEM an irrevocable, exclusive, fully paid up, royalty-free, right and licence in the market and, to develop, manufacture and commercialise the products and to practice the licensed Intellectual property.
- Management is of the view that the Group doesn't have control over STEM, exposure, or rights, to variable returns from its involvement with STEM. Management considers that the call option is not substantive and not favourable as of 31 December 2020 in terms of future benefits and the value attached with the option.
- The Group will continuously and on an annual basis monitor whether the call option is substantive or not. As such, it is possible that, in the future, management may have to conclude that the potential voting rights become substantive and that the potential voting rights together with the existing voting rights provide the Group control over STEM.
- Management is of the view, based on the nature of the pre-agreed decisions which require special consent listed in the shareholders' agreement, both the Group and Kane have joint control over STEM.
- It was agreed between both parties that STEM will benefit from predetermined mark-up on the products STEM produce, which will be distributed to both parties through dividends and that the Group doesn't have access to STEM assets or to incur liabilities on behalf of STEM. Accordingly, management is of the view that, based on the IFRS 11 Joint Arrangement flow chart, the nature of the arrangement consists of a joint venture rather than joint operations.

4. Non-recurring

	For the year ended 31 December	
	2020 £'000	2019 £'000
Amortisation and impairment of acquisition-related intangibles		
Classified within research and development expenses	**1,100**	1,171
Classified within general and administrative expenses	**4,800**	4,771
Classified within net other operating expenses	**–**	1,619
Total amortisation and impairment of acquisition-related intangibles	**5,900**	7,561
Restructuring costs	**415**	1,795
Acquisition and integration costs	**698**	550
Brexit-related costs	**5**	243
Divestments and business disposals	**85**	173
COVID-19	**283**	–
Other non-underlying items	**372**	431
Total non-underlying items before taxes	**7,758**	10,753
Tax impact	**(1,639)**	(2,236)
Total non-underlying items after taxes	**6,119**	8,517

The amortisation charge of acquisition-related intangibles largely relates to the Esteve acquisition of £2,047k (2019: £2,020k), the Riemser acquisition of £373k (2019: £369k) and the reverse acquisition of Animalcare Group plc of £3,479k (2019: £3,629k). The prior year impairment charge of £1,619k largely reflects the non-cash impairment of three projects within the acquired product development pipeline at a fair value of £1.5m that failed to meet technical, competitive or commercial milestones.

During the year the Group incurred restructuring costs of £415k (2019: £1,795k) largely relating to reorganisation of the Production Animals business unit in Spain. The prior year charge primarily relates to the R&D and Technical & Regulatory team centralisation and associated costs of implementing the headcount reduction.

Acquisition and integration costs of £698k (2019: £550k) include costs associated with the STEM Animal Health transaction and integration costs in connection with the acquisition of Ecuphar NV, including manufacturing transfer costs as we continue to strengthen and simplify our supply chain.

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

5. Segment information

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

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

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

The following table summarises the segment reporting from continuing operations for 2020 and 2019. As management's controlling instrument is mainly revenue-based, the reporting information does not include assets and liabilities by segment and is as such not presented per segment.

	Pharma £'000
For the year ended 31 December 2020	
Revenues	**70,494**
Gross Profit	**36,559**
Gross Profit %	**52%**
Segment underlying EBITDA	**12,091**
Segment underlying EBITDA %	**17%**
Segment EBITDA	**10,231**
Segment EBITDA %	**15%**
For the year ended 31 December 2019	
Revenues	71,124
Gross Profit	36,972
Gross Profit %	52%
Segment underlying EBITDA	13,137
Segment underlying EBITDA %	18%
Segment EBITDA	9,925
Segment EBITDA %	14%

The segment EBITDA is reconciled with the consolidated net profit/(loss) of the year as follows:

	For the year ended 31 December	
	2020 £'000	2019 £'000
Segment EBITDA	**10,231**	9,925
Depreciation, amortisation and impairment	**(9,428)**	(11,216)
Operating profit/(loss)	**803**	(1,291)
Financial expenses	**(1,051)**	(1,856)
Financial income	**540**	1,539
Share in net loss of joint ventures	**(93)**	–
Income taxes	**(985)**	36
Deferred taxes	**1,020**	234
Net profit/(loss)	**234**	(1,338)

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

	For the year ended 31 December	
	2020 £'000	2019 £'000
Belgium	**11,353**	14,325
Spain	**2,476**	2,424
Portugal	**4,276**	3,997
UK	**68,042**	70,572
Other	**6,275**	4,496
Non-current assets excluding deferred tax assets and financial instruments	**92,422**	95,814

Revenue by product category

	For the year ended 31 December	
	2020 £'000	2019 £'000
Companion animals	**44,808**	46,464
Production animals	**19,720**	18,844
Horses	**5,947**	5,681
Petfood, Instrumentation and Services	**19**	135
Total	**70,494**	71,124

Revenue by geographical area

	For the year ended 31 December	
	2020 £'000	2019 £'000
Belgium	**9,502**	9,303
The Netherlands	**1,326**	2,106
United Kingdom	**11,553**	14,137
Germany	**10,746**	10,337
Spain	**17,990**	18,644
Italy	**7,935**	6,142
Portugal	**4,554**	4,598
European Union – other	**5,621**	4,925
Asia	**782**	471
Middle East Africa	**81**	44
Other	**404**	417
Total	**70,494**	71,124

Revenue by category

	For the year ended 31 December	
	2020 £'000	2019 £'000
Product sales	**69,443**	69,946
Services sales	**1,051**	1,178
Total	**70,494**	71,124

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.

6. Income and expenses

6.1 Cost of sales

Cost of sales includes the following expenses:

	For the year ended 31 December	
	2020 **£'000**	2019 £'000
Purchase of goods and services	**33,286**	33,079
Inventory and other write-downs	**161**	286
Reversal stock devaluation	**(340)**	–
Payroll expenses	**378**	308
Other expenses	**450**	479
Total	**33,935**	34,152

6.2 Research and development expenses

Research and development expenses include the following:

	For the year ended 31 December	
	2020 **£'000**	2019 £'000
Amortisation and depreciation	**1,807**	1,597
Payroll expenses	**1,411**	1,516
Other R&D expenses	**268**	980
Total	**3,486**	4,093

6.3 Selling and marketing expenses

Selling and marketing expenses include the following:

	For the year ended 31 December	
	2020 **£'000**	2019 £'000
Transport costs of sold goods	**914**	905
Promotion costs	**1,832**	2,192
Payroll expenses	**8,653**	7,921
Amortisation and depreciation	**6**	16
Other	**920**	828
Total	**12,325**	11,862

6 .4 General and administrative expenses

General and administrative expenses include the following:

	For the year ended 31 December	
	2020 **£'000**	2019 £'000
Amortisation and depreciation	**7,575**	7,866
Payroll expenses	**4,068**	3,553
Other	**6,459**	6,075
Total	**18,102**	17,494

Notes to the Consolidated Financial Statement CONTINUED

YEAR ENDED 31 DECEMBER 2020

6.5 Net other operating expenses

The net other operating expenses can be detailed as follows:

	For the year ended 31 December	
	2020 **£'000**	2019 £'000
Re-invoicing costs	**(7)**	(17)
Gains/losses on disposals of fixed assets	**(16)**	3
Other operating income	**(124)**	(94)
Impairments	**19**	1,632
Other operating expenses	**1,971**	3,290
Total	**1,843**	4,814

The prior year non-cash impairment charge of £1,632k principally relates to impairment of acquired or in-process R&D due to regulatory and technical issues.

Other operating expenses for 2020 and 2019 principally relate to restructuring and integration costs.

6.6 Expenses by nature

	For the year ended 31 December	
	2020 **£'000**	2019 £'000
Other operating lease rentals	**682**	671
Employee expenses	**14,132**	12,990
Depreciation and amortisation	**9,388**	9,479
Transport costs sold goods	**914**	905
Promotion costs	**1,832**	2,192
Other operating expense/(income) – note 6.5	**1,843**	4,814
Other expenses	**6,965**	7,212
Total expenses	**35,756**	38,263

6.7 Payroll expenses

The following table shows the breakdown of payroll expenses for 2020 and 2019:

	For the year ended 31 December	
	2020 **£'000**	2019 £'000
Wages and salaries	**12,529**	11,306
Social security costs	**1,762**	1,770
Other pension costs	**219**	222
Total	**14,510**	13,298
The monthly average number of employees during the year was as follows:		
Sales and administration	**205**	200
Distribution	**6**	13

The payroll expenses for the year are impacted by share-based payments. For more information we refer to note 26.

6. Income and expenses CONTINUED

6.8 Financial expenses

Financial expenses include the following elements:

	For the year ended 31 December	
	2020 £'000	2019 £'000
Interest expense	**516**	618
Foreign currency losses	**418**	1,120
Change in fair value – losses on financial instruments	**17**	–
Other financial expenses	**100**	118
Total	**1,051**	1,856

6.9 Financial income

Financial income includes the following elements:

	For the year ended 31 December	
	2020 £'000	2019 £'000
Foreign currency exchange gains	**518**	1,509
Income from financial assets	**13**	30
Other financial income	**9**	–
Total	**540**	1,539

6.10 Income tax

Income tax

The following table shows the breakdown of the tax expense for 2020 and 2019:

	For the year ended 31 December	
	2020 £'000	2019 £'000
Current tax charge	**(830)**	(617)
Tax adjustments in respect of previous years	**(155)**	653
Total current tax charge	**(985)**	36
Deferred tax – origination and reversal of temporary differences	**950**	272
Deferred tax – adjustments in respect of previous years	**70**	(38)
Total deferred tax credit	**1,020**	234
Total tax income for the year	**35**	270

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

	For the year ended 31 December	
	2020 £'000	2019 £'000
Profit/(loss) before tax	**199**	(1,608)
Share in net loss of joint ventures	**93**	–
Profit/(loss) before tax, excl. Share in net profit/(loss) of joint ventures	**292**	(1,608)
Tax at 19.00% (2019: 19.00%)	**(55)**	305
Effect of:		
Overseas tax rates	**(262)**	(181)
Non-deductible expenses	**(109)**	(146)
Income not subject to tax	**–**	31
Derecognition of formerly recognised deferred tax assets	**–**	(3)
Other permanent tax differences	**–**	–
Other taxes	**(7)**	(60)
Use of tax losses previously not recognised	**181**	109
Changes in statutory enacted tax rate	**(4)**	27
Tax adjustments in respect of previous year	**(85)**	615
Non-recognition of deferred tax on current year losses	**(423)**	(429)
Recognition of formerly recognised deferred tax assets on TLCF	**821**	(6)
Current tax – to be booked	**–**	8
Other	**(22)**	–
Income tax expense as reported in the consolidated income statement	**35**	270

The tax credit of £1,639k (2019: £2,236k) shown within "non-underlying items" on the face of the consolidated income statement, which forms part of the overall tax credit of £35k (2019: £270k), relates to the items in note 5.

The tax rates used for the 2020 and 2019 reconciliation above are the corporate tax rates of 25.00% (Belgium), 25.00% (the Netherlands), 30.70% (Germany), 33.00% (France), 25.00% (Spain), 24.00% (Italy), 21.00% (Portugal) and 19.00% (the United Kingdom). These taxes are payable by corporate entities in the above-mentioned countries on taxable profits under tax law in that jurisdiction.

The March 2021 Budget announced an increase in the UK standard rate of corporation tax to 25% from 1 April 2023. The legislation was not enacted during the year so deferred tax has been provided using the enacted rate of 19%. If deferred tax was calculated using the 25% rate the net deferred tax liability recognised at the balance sheet date would be increased from £3,747k to £5,005k.

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

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

6. Income and expenses CONTINUED

Deferred tax

(a) Recognised deferred tax assets and liabilities

	Assets		Liabilities		Total	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000
Goodwill	**(150)**	(7)	**(785)**	(765)	**(935)**	(772)
Intangible assets	**275**	719	**(4,048)**	(4,490)	**(3,773)**	(3,771)
Property, plant and equipment	**(309)**	(244)	**(130)**	(155)	**(439)**	(399)
Financial fixed assets	**1**	1	**–**	–	**1**	1
Inventory	**(22)**	(8)	**(19)**	(21)	**(41)**	(29)
Trade and other payables/receivables	**120**	3	**46**	(1)	**166**	2
Borrowings	**272**	295	**132**	112	**404**	407
Accruals and deferred income	**104**	6	**–**	–	**104**	6
Tax losses carried forward	**1,929**	759	**–**	144	**1,929**	903
Total	**2,220**	1,524	**(4,804)**	(5,176)	**(2,584)**	(3,652)

(b) Movements during the year

Movement of deferred taxes during 2020:

	Balance at 1 January 2020 £'000	Recognised in income £'000	Disposal of subsidiaries £'000	Foreign exchange adjustments £'000	**Balance at 31 December 2020 £'000**
Goodwill	(772)	(118)	–	(45)	**(935)**
Intangible assets	(3,771)	(37)	–	35	**(3,773)**
Property, plant and equipment	(399)	(21)	–	(19)	**(439)**
Financial fixed assets	1	–	–	–	**1**
Inventory	(29)	(10)	–	(2)	**(41)**
Trade and other payables/receivables	2	165	–	(1)	**166**
Accruals and deferred income	6	97	–	1	**104**
Borrowings	407	(24)	–	21	**404**
Tax losses carry forward and other tax benefits	903	968	–	58	**1,929**
Net deferred tax	(3,652)	1,020	–	48	**(2,584)**

Movement of deferred taxes during 2019:

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

Tax losses

The Group has unused tax losses, tax credits and notional interest deduction available to the amount of £7,532k (2019: £3,014k).

Deferred tax assets have been recognised on available tax losses carried forward for some legal entities, resulting in amounts recognised of £1,929k (2019: £759k). 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.

Notes to the Consolidated Financial Statement CONTINUED

YEAR ENDED 31 DECEMBER 2020

7. 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) before continuing operations

	For the year ended 31 December			
	2020 Underlying £'000	2019 Underlying £'000	**2020 Total £'000**	2019 Total £'000
Net profit/(loss)	**6,353**	7,179	**234**	(1,338)
Net profit attributable to ordinary equity holders of the parent adjusted for the effect of dilution	**6,353**	7,179	**234**	(1,338)

Average number of shares (basic and diluted)

	For the year ended 31 December			
Number of shares	**2020 Underlying**	2019 Underlying	**2020 Total**	2019 Total
Weighted average number of ordinary shares for basic earnings per share	**60,057,161**	60,057,161	**60,057,161**	60,057,161
Dilutive potential ordinary shares	**42,581**	–	**42,581**	–
Weighted average number of ordinary shares adjusted for effect of dilution	**60,099,742**	60,057,161	**60,099,742**	60,057,161

Basic earnings/(loss) per share

	For the year ended 31 December			
	2020 Underlying in pence	2019 Underlying in pence	**2020 Total in pence**	2019 Total in pence
From operations attributable to the ordinary equity holders of the Company	**10.6**	12.0	**0.4**	(2.2)
Total basic earnings per share attributable to the ordinary equity holders of the Company	**10.6**	12.0	**0.4**	(2.2)

Diluted earnings/(loss) per share

	For the year ended 31 December			
	2020 Underlying in pence	2019 Underlying in pence	**2020 Total in pence**	2019 Total in pence
From operations attributable to the ordinary equity holders of the Company	**10.6**	12.0	**0.4**	(2.2)
Total basic earnings per share attributable to the ordinary equity holders of the Company	**10.6**	12.0	**0.4**	(2.2)

8. Goodwill

On acquisition, goodwill acquired in a business combination is allocated to the cash-generating units which are expected to benefit from that business combination. This cash-generating unit corresponds to the nature of the business, following the separate division Pharmaceuticals. The goodwill has been allocated to the cash-generating unit "CGU" as follows:

	For the year ended 31 December	
	2020 £'000	2019 £'000
CGU: Pharmaceuticals	**50,987**	50,454
Total	**50,987**	50,454

The changes in the carrying value of the goodwill can be presented as follows for the years 2020 and 2019:

	Total £'000
At 1 January 2019	50,937
Disposals	–
Currency translation	(483)
At 31 December 2019	**50,454**
At 1 January 2020	50,454
Disposals	–
Currency translation	533
At 31 December 2020	**50,987**

Goodwill allocated to the Pharmaceuticals CGU includes goodwill recognised as a result of past business combinations of Esteve, Equipharma NV, Ecuphar BV, Cardon Pharmaceuticals NV and the reverse acquisition of Animalcare Group plc in 2017.

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

	2020	2019
Discount rate (pre-tax) %	**10.2**	11.8
Growth rate (in perpetuity) %	**2.0**	2.0

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

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

A 1.0% increase in discount rates would cause the value in use of the CGU to reduce by £21.8m but would not give rise to an impairment. A 1.0% reduction in perpetuity growth rates would cause the value in use of the CGU to reduce by £16.8m, but would not give rise to an impairment.

The CGU is robust to small reductions in short-term cash flows, whether driven by lower sales growth, lower operating profits or lower cash conversion. A 59.5% reduction in total annual cash flows would give rise to an impairment of £100k. An increase in discount rates to 20.7% or a reduction in perpetuity growth rates to (18.8%) would each give rise to an impairment in the CGU of £100k.

9. Intangible assets

The changes in the carrying value of the intangible assets can be presented as follows for the years 2020 and 2019:

	In Process R&D £'000	Patents, distribution rights and licences £'000	Product portfolios and product development costs £'000	Capitalised software £'000	Total £'000
Acquisition value					
At 1 January 2019	17,079	19,108	40,668	1,181	78,036
Additions	1,582	251	208	302	2,343
Disposals	(1,830)	(62)	(46)	–	(1,938)
Transfers	(88)	(136)	(3)	88	(139)
Currency translation	(217)	(723)	(826)	(61)	(1,827)
Other	1,395	–	(1,395)	6	6
At 31 December 2019	17,921	18,438	38,606	1,516	76,481
Additions	1,592	39	51	573	2,255
Disposals	(1,104)	–	(1,957)	(14)	(3,075)
Transfers	–	–	–	–	–
Currency translation	246	789	916	74	2,025
Other	–	–	–	–	–
At 31 December 2020	**18,655**	**19,266**	**37,616**	**2,149**	**77,686**
Amortisation					
At 1 January 2019	(3,536)	(7,721)	(14,816)	(629)	(26,702)
Amortisations	(1,546)	(2,851)	(3,490)	(335)	(8,222)
Disposals	1,828	62	13	–	1,903
Impairments	(1,632)	–	–	–	(1,632)
Transfers	–	136	3	–	139
Currency translation	72	405	521	39	1,037
Other	1	–	–	(5)	(4)
At 31 December 2019	(4,813)	(9,969)	(17,769)	(930)	(33,481)
Amortisations	(1,473)	(2,805)	(3,508)	(363)	(8,149)
Disposals	1,080	–	1,958	14	3,052
Impairments	–	(19)	–	–	(19)
Transfers	44	–	–	(44)	–
Currency translation	(93)	(511)	(619)	(54)	(1,277)
Other	–	–	–	–	–
At 31 December 2020	**(5,255)**	**(13,304)**	**(19,938)**	**(1,377)**	**(39,874)**
Net carrying value					
At 31 December 2020	**13,400**	**5,962**	**17,678**	**772**	**37,812**
At 31 December 2019	13,108	8,469	20,837	586	43,000

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 2017 and external and internal in-process R&D costs for which the capitalisation criteria are met. Patents, distribution rights and licences include amounts paid for exclusive distribution rights as well as distribution rights acquired as part of the Esteve business combination in 2015 and the reverse acquisition of Animalcare Group plc in 2017.

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

The total amortisation charge for 2020 is £8,149k (2019: £8,222k) which is included in lines cost of sales, research and development expenses, sales and marketing expenses and general and administrative expenses of the consolidated income statement. Included in the total amortisation and impairment charge is £5,900k (2019: £7,561k) relating to acquisition-related intangibles.

In 2020, Animalcare Group plc recorded an impairment charge of £19k (2019: £1,632k).

10. Property, plant and equipment

The changes in the carrying value of the property, plant and equipment can be presented as follows for 2020 and 2019:

	Equipment £'000	Office furniture and equipment £'000	Warehouse and office fitting £'000	Leasehold improvements £'000	Fixed assets under construction £'000	Total £'000
Acquisition value						
At 1 January 2019	610	1,405	–	494	–	2,509
Additions	22	18	2	6	–	48
Disposals	1	–	(2)	–	–	(1)
Currency translation	(12)	(59)	–	(15)	–	(86)
Other	(228)	225	184	(186)	–	(5)
At 31 December 2019	393	1,589	184	299	–	2,465
Additions	5	48	–	–	124	177
Disposals	–	(59)	–	–	(81)	(140)
Currency translation	13	66	–	18	8	105
At 31 December 2020	**411**	**1,644**	**184**	**317**	**51**	**2,607**
Depreciation						
At 1 January 2019	(507)	(1,189)	–	(336)	–	(2,032)
Depreciation charge for the year	(36)	(113)	(19)	(34)	–	(202)
Disposals	4	(3)	–	–	–	1
Currency translation	10	52	–	12	–	74
Other	191	(186)	(105)	106	–	6
At 31 December 2019	(338)	(1,439)	(124)	(252)	–	(2,153)
Depreciation charge for the year	(26)	(84)	(19)	(31)	–	(160)
Disposals	–	58	–	–	–	58
Currency translation	(12)	(60)	–	(15)	–	(87)
At 31 December 2020	**(376)**	**(1,525)**	**(143)**	**(298)**	**–**	**(2,342)**
Net book value						
At 31 December 2020	**35**	**119**	**41**	**19**	**51**	**265**
At 31 December 2019	55	150	60	47	–	312

The investment in property, plant and equipment in 2020 amounted to £177k (2019: £48k) and mainly related to the acquisitions of IT and office equipment.

The Group realised a net gain on disposals of property, plant and equipment of £ nil in 2020 (2019: £nil). No impairment of property, plant and equipment was recorded in 2019.

Leases

The carrying value of assets held under finance leases at 31 December 2020 was £41k (2019: £60k). Finance leases mainly related to leased plants.

Borrowing costs

No borrowing costs were capitalised during the year ended 31 December 2020 or 31 December 2019.

11. Investments in joint ventures

On 28 September 2020 the Group announced that it has entered into an agreement with Canada-based biotech company Kane Biotech Inc. under which the parties formed STEM Animal Health Inc. ("STEM"), a company dedicated to treating biofilm-related ailments in animals.
The Group acquired, via its 100% subsidiary Ecuphar NV, 33,34% in STEM for a cash consideration of CA$3m, payable over 48 months, of which CA$1m was paid during the financial year. The Group has an option, for a period of six years, to acquire an additional one-sixth stake in STEM for CA$4 million. Based on the existing voting rights (33%) and other contractual arrangements, the Group does not have power over the investee. Further disclosure is provided in note 3 Significant accounting judgements, estimates and assumptions. Accordingly, the investment in STEM is accounted for through the equity method in the consolidated financial statements.

Separately, we also announced that we had entered into a licensing agreement, under which we will invest a further CA$2m, consisting of an initial payment along with a series of potential payments linked to various milestones, for rights to commercialise products in global veterinary markets outside the Americas.

Both the equity investment in STEM and the licensing fee are expected to be paid from existing cash resources. The Group expects the agreement to be earnings enhancing in 2022. At the end of 2020, the outstanding short-term liability is £272k, shown in the balance sheet as other current liability. The outstanding long-term liability is £717k, shown in the balance sheet as other non-current liability.

		% of ownership interest				Carrying amount	
Name of entity	Place of business/ country of incorporation	**2020 %**	2019 %	Nature of relationship	Measurement method	**2020 £'000**	2019 £'000
STEM Animal Health Inc.	Canada	**33.34%**	0	Joint venture	Equity method	**1,457**	0

The tables below provide summarised financial information for the joint venture in STEM Animal Health Inc. which is material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant joint venture and not Animalcare's share of those amounts.

	For the year ended 31 December 2020 £'000
Non-current assets	**760**
Current assets	**911**
Total assets	**1,671**
Non-current liabilities	**–**
Current liabilities	**297**
Total liabilities	**297**
Net assets	**1,374**
Group share	**458**
Goodwill	**552**
Fair value identified intangibles	**608**
Deferred tax liability	**(161)**
Investment value in joint venture	**1,457**

Summarised statement of comprehensive income:

	For the year ended 31 December 2020 £'000
Sales	**134**
Operating expenses	**(378)**
Financial result, net	**(1)**
Net loss	**(245)**
Group share in net loss for the year	**(82)**
Depreciation on fair value adjustments on intangible fixed assets (net of deferred tax)	**(11)**
Total Group share in net loss for the year	**(93)**
Other comprehensive expense	**(18)**
Group share in total comprehensive expense	**(111)**

Reconciliation of the aforementioned financial information with the net carrying amount of the investment of STEM Animal Health Inc. in the consolidated financial statements:

As per 31 December 2019	–
Acquisition in joint venture	1,568
Group share of net profit/(loss) for the year	(93)
Foreign currency translation differences	(18)
As per 31 December 2020	**1,457**

12. Inventories

Inventories include the following:

	For the year ended 31 December	
	2020 £'000	2019 £'000
Raw materials	**1,400**	837
Goods purchased for resale	**11,397**	10,265
Total inventories (at cost or net realisable value)	**12,797**	11,102

The amount of inventory recognised as an expense during 2020 amounts to £33,286k (2019: £33,078k). Inventory write-downs during 2020 amounted to £499k (2019: £573k). These costs are classified as a part of the costs of goods sold.

13. Amounts receivable and other non-current assets

Trade receivables include the following:

	For the year ended 31 December	
	2020 £'000	2019 £'000
Trade receivables	**10,226**	10,971
Allowance on trade receivables	**(84)**	(80)
Total	**10,142**	10,891

The Group applied the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables based on historical losses. Trade receivables are non-interest-bearing and are generally on payment terms of between 30 to 90 days.

As at 31 December 2020, trade receivables of an initial value of £84k (2019: £80k) were impaired and fully provided for. The table below shows the changes in the allowance of receivables.

	£'000
At 1 January 2019	(79)
Additional impairments	(32)
Reversal impairment	13
Reclassification	14
Exchange difference	4
At 31 December 2019	(80)
Additional impairments	(37)
Reversal impairment	37
Reclassification	–
Exchange difference	(4)
At 31 December 2020	**(84)**

13. Amounts receivable and other non-current assets CONTINUED

Other current assets include the following:

	For the year ended 31 December	
	2020 £'000	2019 £'000
Other receivables	**1,228**	2,270
Deferred charges	**361**	476
Total	**1,589**	2,746

Other current assets amount to £1,589k (2019: £2,746k) at the end of the reporting year and mainly include reclaimable taxes and a receivable resulting from the sale of the wholesale business. On 3 September 2018, Ecuphar NV sold the wholesale business Medini NV to Vetdis Holding NV (Vetdis) under a Share Purchase Agreement (SPA). In June 2019, Vetdis sent a letter to Ecuphar claiming that Ecuphar had breached the SPA. Ecuphar disputes the majority of the claim, however Ecuphar considers it likely that a part of the claim, amounting to €126,430, may be valid. Under the SPA, Vetdis had an obligation to pay Ecuphar €377,854 plus interest on 30 June 2019; Vetdis has refused to pay this. Ecuphar believes that Vetdis has no reason not to pay the amount of €377,854 and Ecuphar has recorded it as a receivable. Ecuphar has offset against this receivable the amount of €126,430 that may be validly due to Vetdis. Following various discussions and correspondence, during which the parties were unable to reach an agreement, Vetdis issued formal court papers on 29 May 2020. A full court hearing to consider the case took place in the Commercial Court in Bruges on 2 March 2021. We understand that we are likely to receive a judgment in April 2021. Other than the €126,430, which may be valid, no further provision in respect of this matter has been included in the financial statements.

Deferred charges mainly include charges to be carried forward totalling £361K (2019: £476K prepayments).

	For the year ended 31 December	
	2020 £'000	2019 £'000
Other non-current assets	**48**	72

14. Cash and cash equivalents

Cash and cash equivalents include the following:

	For the year ended 31 December	
	2020 £'000	2019 £'000
Cash at bank	**5,265**	6,164
Cash equivalents	**–**	1
Total	**5,265**	6,165

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 2020 and 2019.

15. Trade payables

	For the year ended 31 December	
	2020 £'000	2019 £'000
Trade payables	**11,348**	10,334
Total	**11,348**	10,334

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

16. Borrowings

The loans and borrowings include the following:

	Interest rate	Maturity	For the year ended 31 December 2020 £'000	2019 £'000
Other loans	1.56%		**–**	9
Revolving credit facilities	Euribor +1.50%	March 2022	**12,227**	16,845
Rollover investment facility	Euribor +1.50%	March 2022	**797**	1,358
Acquisition loan	Euribor +1.75%	March 2022	**4,045**	3,828
Lease liabilities	See note 22		**1,812**	1,936
Total loans and borrowings			**18,881**	23,976
Of which				
Non-current			**17,293**	22,534
Current			**1,588**	1,442

Revolving credit facilities and rollover investment facilities

The Group's financing arrangements are split equally amongst four syndicate banks. The current 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 1.50% or 1.75%. As at 31 December 2020 the revolving credit facilities and the acquisition financing had a bullet maturity in March 2022.

During the first quarter we have been in discussions with our four syndicate banks to extend our existing banking facilities from 31 March 2022 to 31 March 2025. We have completed renewals with three of the four banks and expect to finalise the remaining documentation with the fourth in early April.

17. Provisions

Provisions consist of the following:

	For the year ended 31 December 2020 £'000	2019 £'000
Provisions for compensation for damages	**34**	30
Provisions for risks and charges	**62**	88
Total	**96**	118

Provisions for risks and charges amount to £62k as at December 2020 (2019: £88k).

The assessment of the accounting treatment of the Belgian employee benefit contribution plans with a minimal guaranteed return was based on actuarial calculations which resulted in an immaterial impact as only a limited number of individuals can benefit from the plan given the limited fixed amount which is being covered per covered individual. No provision has been recognised as at 31 December 2020 and 2019. As a result no further disclosures have been provided.

Contingent liability relating to the sale of Medini NV

On 3 September 2018, Ecuphar NV sold the wholesale business Medini NV to Vetdis Holding NV under a Share Purchase Agreement (SPA). In June 2019, Vetdis sent a letter to Ecuphar claiming that Ecuphar had breached the SPA. Ecuphar disputes the basis and the value of the claim. Discussions are continuing with Vetdis. Following various discussions and correspondence, during which the parties were unable to reach an agreement, Vetdis issued formal court papers on 29 May 2020. A full court hearing to consider the case took place in the Commercial Court in Bruges on 2 March 2021. We understand that we are likely to receive a judgment in April 2021. Other than the €126,430, detailed in note 13, no further provision in respect of this matter has been included in the financial statements.

18. Non-current liabilities

Other non-current liabilities consist of the fair value of the long-term capital contribution in STEM that hasn't been paid yet.

	For the year ended 31 December	
	2020 £'000	2019 £'000
Non-current liabilities	**717**	–
Total	**717**	–

19. Accrued charges and deferred income

Accrued charges and deferred income consists of the following:

	For the year ended 31 December	
	2020 £'000	2019 £'000
Accrued charges	**2,450**	1,898
Deferred income- due within one year	**234**	173
Other	**2**	(8)
Total due within one year	**2,686**	2,063
Deferred income - due after one year	**556**	599

Accrued charges mainly relate to accrued product development expenses of £882k (2019: £790k) and several accrued charges relating to commissions and bonuses in Animalcare for an amount of £653k (2019: £508k), Ecuphar Veterinaria for an amount of £538k (2019: £294k) and £307k (2019: £261k) 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:

	For the year ended 31 December	
	2020 £'000	2019 £'000
Balance at the beginning of the year	**772**	807
Income deferred to following years	**201**	160
Release of income deferred from previous years	**(183)**	(195)
Balance at the end of the year	**790**	772

The deferred income liabilities fall due as follows:

	For the year ended 31 December	
	2020 £'000	2019 £'000
Within one year	**234**	173
After one year	**556**	599
Balance at the end of the year	**790**	772

20. Other current liabilities

Other current liabilities include the following:

	For the year ended 31 December	
	2020	2019
	£'000	£'000
Payroll-related liabilities	**1,288**	1,038
Indirect taxes payable	**1,658**	999
Other current liabilities	**256**	762
Total	**3,202**	2,799

The Group acquired a one-third stake in STEM Animal Health Inc. for a cash consideration of CA$3m, payable over 48 months, of which CA$1m (£0.6m) was paid during the financial year. As at 31 December 2020 other current liabilities relate to CA$0.5m (£0.3m) which becomes payable during 2021.

21. Fair value

Financial assets

The carrying value and fair value of the financial assets for 31 December 2020 and 2019 are presented as follows:

	Carrying value		Fair value	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
Financial assets measured at amortised cost				
Trade and other receivables (current)	**10,142**	10,891	**10,142**	10,891
Trade and other receivables (non-current)	**48**	72	**48**	72
Other financial assets (non-current)	**63**	59	**63**	59
Other current assets	**1,589**	2,746	**1,589**	2,746
Cash and cash equivalents	**5,265**	6,165	**5,265**	6,165
Total financial assets measured at amortised cost	**17,107**	19,933	**17,107**	19,933

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

- The carrying value of the cash and cash equivalents and the current receivables approximate their fair value due to their short-term character.
- Trade and other receivables are being evaluated on the basis of their credit risk and interest rate. Their fair value is not different from their carrying value on 31 December 2020 and 2019.

Call option to acquire an additional 18% share in joint venture STEM Animal Health Inc.

- The Group has a call option to acquire an additional 18% share in its joint venture STEM Animal Health Inc. exercisable for a period of six years. The call option is valued at fair value through Profit and Loss and has a carrying value of £nil as of 31 December 2020 and will be remeasured every year. The call option is considered at level 3 in the fair value hierarchy. Further disclosure is provided in note 3 Significant accounting judgements, estimates and assumptions.

Financial liabilities

The carrying value and fair value of the financial liabilities for 31 December 2020 and 2019 are presented as follows:

	Carrying value		Fair value	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
Financial liabilities measured at amortised cost				
Borrowings	**17,787**	22,040	**17,787**	22,040
Lease liabilities	**1,812**	1,936	**1,812**	1,936
Trade payables	**11,348**	10,334	**11,348**	10,334
Other liabilities	**6,996**	6,748	**6,996**	6,748
Total financial liabilities measured at amortised cost	**37,943**	41,058	**37,943**	41,058
Total non-current	**18,010**	22,534	**18,010**	22,534
Total current	**19,933**	18,524	**19,933**	18,524

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

- The carrying value of trade payables and other liabilities approximates their fair value due to the short-term character of these instruments.
- Loans and borrowings are evaluated based on their interest rates and maturity date. Most interest-bearing debts have floating interest rates and their fair value approximates to their amortised cost value.

Fair value hierarchy
The fair value hierarchy is described in note 3. The financial liabilities are calculated based on level 1.

22. Equity

Share capital

	For the year ended 31 December	
Number of shares	**2020**	2019
Allotted, called up and fully paid Ordinary Shares of 20p each	**60,057,161**	60,057,161

	For the year ended 31 December	
	2020 £'000	2019 £'000
Allotted, called up and fully paid Ordinary Shares of 20p each	**12,012**	12,012

The following share transactions have taken place during the year ended 31 December 2020:

	For the year ended 31 December	
	2020 £'000	2019 £'000
At 1 January 2020	**60,057,161**	12,012
At 31 December 2020	**60,057,161**	12,012

Dividends

	For the year ended 31 December	
	2020 £'000	2019 £'000
Ordinary final dividend paid for the period ended 31 December 2018 of 2.4p per share	**–**	1,441
Ordinary interim dividend paid for the period ended 31 December 2019 of 2.0p per share	**–**	1,201
Ordinary interim dividend paid for the period ended 31 December 2020 of 2.0p per share	**1,201**	–
	1,201	2,642

The proposed final dividend of 2.0 pence per share is subject to approval of shareholders at the Annual General Meeting and has not been included as a liability as at 31 December 2020, in accordance with IAS 10 Events After the Reporting Period.

23. IFRS 16 Leases

The balance sheet shows the following amounts relating to leases as at 31 December 2020:

	31 December 2020 £'000	1 January 2020 £'000
Buildings	**831**	893
Vehicles	**958**	989
Other	**1**	35
Total right-of-use assets	**1,790**	1,917
Current lease liabilities	**951**	830
Non-current lease liabilities	**861**	1,106
Total lease liabilities	**1,812**	1,936

23. IFRS 16 Leases CONTINUED

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

	Land and buildings £'000	Vehicles £'000	Other £'000	Total £'000
Acquisition value				
At 31 December 2019	1,271	1,587	81	2,939
Additions	343	583	–	926
Disposals and contract modifications	(30)	(225)	(2)	(257)
Transfers	(71)	–	–	(71)
Currency translation	57	84	5	146
At 31 December 2020	**1,570**	**2,029**	**84**	**3,683**
Depreciation				
At 31 December 2019	(378)	(598)	(46)	(1,022)
Depreciation charge for the year	(433)	(619)	(31)	(1,083)
Disposals and contract modifications	22	181	(3)	200
Transfers	71	–	–	71
Currency translation	(21)	(35)	(3)	(59)
At 31 December 2020	**(739)**	**(1,071)**	**(83)**	**(1,893)**
Net book value				
At 31 December 2020	**831**	**958**	**1**	**1,790**

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

	Lease liability £'000
At 1 January 2020	**1,936**
Additions	926
Disposals	(57)
Interest expense	59
Payments	(1,140)
CTA	88
At 31 December 2020	**1,812**

The following amounts are recognised in the income statement:

	For the year ended 31 December 2020 £'000
Depreciation expense of right-of-use assets	**(1,083)**
Interest expense on lease liabilities	**(59)**
(Loss)/gain on disposal of IFRS16 assets	**–**
Expense relating to short-term leases and low-value assets	**(187)**
Total amount recognised in the income statement	**(1,329)**

Cash-flows relating to leases are presented as follows:

- Cash payments for the principal portion of the lease liabilities as cash flows from financing activities;
- Cash payments for the interest portion consistent with presentation of interest payments chosen by the Group, and;
- Short-term lease payments, payments for leases of low-value assets and variable lease payments that are not included in the measurement of the lease liabilities as cash flows from operating activities.

24. Risks

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

Credit risk

As at 31 December 2020 the Group's maximum exposure to credit risk is £10,142k, which is the amount of the trade receivables in the consolidated financial statements (2019: £10,891k).

To control this risk, the Group has set up a strict credit collection process. Historically, no major bad debts have been recorded. The Group has no individual customers who represent a significant part of the consolidated turnover, nor of the trade receivables at year-end.

The following is an ageing schedule of trade receivables:

	Total £'000	Non-due £'000	< 30 days £'000	31-60 days £'000	61-90 days £'000	91-180 days £'000	> 181 days £'000	Expected loss rate
31 December 2020	**10,142**	**10,151**	**(92)**	**56**	**5**	**(50)**	**72**	**0%**
31 December 2019	10,891	9,410	1,340	47	(9)	12	91	0%

Liquidity risk

Liquidity risk is the risk that the Company may not be able to meet its financial obligations as they fall due. The Group expects to meet its obligations related to the financing agreements through operating cash flows. Additionally, the Group ensures there is sufficient headroom on the existing credit lines to have an additional working capital buffer. As at 31 December 2020, the Group had the following sources of liquidity available:

- Cash and cash equivalents: £5,265k
- Undrawn credit facilities with several banks: £(18,462)k
- Undrawn acquisition financing: £(4,679)k

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

	< 1 year £'000	**1 to 3 years £'000**	**4-5 years £'000**	**> 5 years £'000**	**Total £'000**
At 31 December 2020					
Borrowings	**(637)**	**(17,296)**	**–**	**–**	**(17,933)**
Lease liabilities	**(951)**	**(1,151)**	**(607)**	**–**	**(2,709)**
Trade payables	**(11,348)**	**–**	**–**	**–**	**(11,348)**
Other current liabilities	**(3,202)**	**–**	**–**	**–**	**(3,202)**
Total	**(16,138)**	**(18,447)**	**(607)**	**–**	**(35,192)**

	< 1 year £'000	1 to 3 years £'000	4-5 years £'000	> 5 years £'000	Total £'000
At 31 December 2019					
Borrowings	(612)	(21,428)	–	–	(22,040)
Lease liabilities	(830)	(493)	(677)	–	(2,000)
Trade payables	(10,334)	–	–	–	(10,334)
Other current liabilities	(2,799)	–	–	–	(2,799)
Total	(14,575)	(21,921)	(677)	–	(37,173)

The amounts disclosed in the table above are the contractual undiscounted cash flows. Balances due within one year equal their carrying balances as the impact of discounting is not significant.

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

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

24. Risks CONTINUED

Foreign exchange risk

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

	For the year ended 31 December			
	Assets 2020 £'000	Assets 2019 £'000	**Liabilities 2020 £'000**	Liabilities 2019 £'000
EUR/GBP	**13,166**	6,407	**17,131**	5,973
GBP/EUR	**8,920**	899	**13,602**	333
EUR/USD	**–**	115	**435**	–
GBP/USD	**–**	7	**61**	350
EUR/DKK	**–**	–	**2**	1
EUR/CAD	**–**	–	**1,457**	–
EUR/SEK	**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 £3,058k (2019: £2,550k).

At the end of the reporting year, the Group is mainly exposed to the EUR, the USD and the CAD. The following table details the effect of a 10.00% increase and decrease in the exchange rate of these currencies against the functional currencies GBP and EUR, when applied to outstanding monetary items denominated in foreign currency as at 31 December 2020. A positive number indicates that an increase in profit would arise from a 10.00% change in value of GBP or EUR against these currencies, a negative number indicates that a decrease would arise.

	Strengthening £'000	Weakening £'000
EUR/GBP	396	(396)
GBP/EUR	468	(468)
EUR/USD	44	(44)
GBP/USD	6	(6)
EUR/CAD	146	(146)

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 £175k lower/higher in 2020 and £260k lower/higher in 2019.

Capital management

The primary objective of the Group's shareholders' capital management strategy is to ensure it maintains healthy capital ratios to support its business and maximise shareholder value. Additionally, minimum solvency ratios are agreed upon in the financing agreements. Capital is defined as the Group shareholder's equity which amounts to £81,592k as at 31 December 2020 (2019: £81,889k).

The Group consistently reviews its capital structure and makes adjustments in light of changing economic conditions and performances of the Group. The Group made no changes to its capital management objectives, policies or processes during the years ended 31 December 2020 and 2019.

25. Remuneration paid to the Company's auditors

	For the year ended 31 December	
	2020 **£'000**	2019 £'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	**95**	60
The audit of the Company's subsidiaries pursuant to legislation	**123**	120
Total audit fees	**218**	180
Other services	**2**	–
Total non-audit fees	**2**	–
Total auditors' remuneration	**220**	180

26 Share-based payments

The Group operates a number of equity-settled share-based payment programmes that allow employees to acquire shares in the Group. The Group also operates Long Term Incentive Plans for certain members of the Leadership Team and Executive Directors. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of such equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions (with a corresponding movement in equity).

The fair value of the options issued under the Long Term Incentive Plan have been determined using both the Black-Scholes and Monte Carlo simulation model, in conjunction with a third-party valuation specialist.

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

Animalcare Group plc Executive Share Option Scheme

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

SAYE Option Scheme

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

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

	EMI		SAYE	
	Options	**Price £**	**Options**	**Price £**
Outstanding at 1 January 2020	72,500	2.00	6,629	2.28
Lapsed during the year	(20,000)	1.56	(6,629)	2.28
Open at 31 December 2020	**52,500**	**2.17**	**–**	**–**

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	216p	284p
Weighted average exercise price	216p	228p
Expected volatility	41.00%	40.00%
Expected life	3.0 years	3.1 years
Risk-free rate	**0.50%**	**0.50%**

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

Long Term Incentive Plan ("LTIP")

On 17 November 2020, nil-cost options over a total of 377,120 ordinary shares with a nominal value of 20p per share ("the 2020 LTIP Options") were awarded to certain Executive Directors of the Company and to members of the Group Leadership Team pursuant to the Company's Long Term Incentive Plan.

26. Share-based payments CONTINUED

The awards will normally vest three years after the date of grant subject to the following performance criteria being met over the three-year financial period ending 31 December 2023. The Options will vest to the extent the following performance conditions based on EPS and TSR are met:

Earnings Per Share growth	Extent to which EPS tranche will vest
Less than 3%	0%
3%	25%
8%	100%
Between 3% and 8%	Between 25% and 100% on a straight-line basis

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

50% of the option award will be subject to the EPS performance condition and the remaining 50% will be subject to the TSR performance condition. Accordingly, if one of the performance conditions is met but the other is not, the Option award will vest in part.

The fair value of the options issued under the Long-Term Incentive Plan have been determined using both the Black–Scholes and Monte Carlo simulation models, in conjunction with a third-party valuation specialist.

Inputs into the option pricing models were as follows:

Weighted average share price	£1.72
Weighted average exercise price	£Nil
Expected volatility	29.0%
Expected life	3.1 years
Expected dividend yield	2.30%
Fair value per option – EPS tranche	£1.60
Fair value per option – TSR tranche	£1.25
Risk-free rate	0.50%

On 6 June 2019, nil-cost options over a total of 425,279 ordinary shares with a nominal value of 20p per share ("the 2019 LTIP Options") were awarded to certain Executive Directors and PDMRs of the Company and to members of the Group Leadership Team pursuant to the Company's Long Term Incentive Plan. On 29 June 2020, a further grant of 14,076 ordinary shares was made to a member of the Leadership Team pursuant to the same performance and vesting criteria as the 2019 LTIP options. During the year under review, 56,488 of the 2019 LTIP Options lapsed due to cessation of employment of certain members of the Group Leadership Team; 382,867 of the 2019 LTIP Options are outstanding.

The awards will normally vest three years after the date of grant subject to the following performance criteria being met over the three-year financial period ending 31 December 2021. The Options will vest to the extent the following performance conditions based on EPS and TSR are met:

Earnings Per Share growth	Extent to which EPS tranche will vest
Less than 3%	0%
3%	25%
8%	100%
Between 3% and 8%	Between 25% and 100% on a straight-line basis

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

Fifty per cent of the option award will be subject to the EPS performance condition and the remaining 50% will be subject to the TSR performance condition. Accordingly, if one of the performance conditions is met but the other is not, the Option award will vest in part.

The fair value of the options issued under the Long Term Incentive Plan have been determined using both the Black–Scholes and Monte Carlo simulation models, in conjunction with a third-party valuation specialist.

Inputs into the option pricing models were as follows:

Weighted average share price	£1.60
Weighted average exercise price	£Nil
Expected volatility	30.5%
Expected life	3.0 years
Expected dividend yield	2.80%
Fair value per option – EPS tranche	£1.47
Fair value per option – TSR tranche	£0.98
Risk-free rate	0.50%

The Company recognised a total charge in respect of share-based payments of £162k (2019: £12k).

27. Related party transactions

This disclosure provides an overview of all transactions with related parties. Interests in subsidiaries are disclosed in note 28.

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

Remuneration of the Directors, who are the key management personnel of the Group, is included in the Directors' Remuneration Report on page 50.

28. Overview of consolidated entities

Name	Country of incorporation	Registered address	% equity interest 2020	2019	Consolidation method
Ecuphar NV	Belgium	Legeweg 157i, 8020 Oostkamp	**100%**	100%	Fully consolidated
Orthopaedics.be NV	Belgium	Legeweg 157i, 8020 Oostkamp	**100%**	100%	Fully consolidated
Ecuphar BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	**100%**	100%	Fully consolidated
Ecuphar Veterinary Products BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	**100%**	100%	Fully consolidated
Ornis SA	France	Rue de Roubaix 33, 59200 Tourcoing	**100%**	100%	Fully consolidated
Ecuphar GmbH	Germany	Brandteichstraße 20, 17489 Greifswald	**100%**	100%	Fully consolidated
Euracon Pharma Consulting und Trading GmbH	Germany	Brandteichstraße 20, 17489 Greifswald	**100%**	100%	Fully consolidated
Ecuphar Veterinaria SA	Spain	Avenida Río de Janeiro, 60 – 66, planta 13, 08016 Barcelona	**100%**	100%	Fully consolidated
Ecuphar Italia	Italy	Viale Francesco Restelli, 3/7, piano 1, 20124 Milano	**100%**	100%	Fully consolidated
Belphar	Portugal	R. Carlos Alberto da Mota Pinto, Nº 17 – 3ºA, 1070–313 Lisboa	**100%**	100%	Fully consolidated
Animalcare Plc	United Kingdom	Unit 7, 10 Great North Way, York Business Park, Nether Poppleton, York, YO26 6RB	**100%**	100%	Fully consolidated
Animalcare Group plc	United Kingdom	Unit 7, 10 Great North Way, York Business Park, Nether Poppleton, York, YO26 6RB	**100%**	100%	Fully consolidated
STEM Animal Health Inc.	Canada	Innovation Drive Winnipeg 162–196, Manitoba, R3T 2N2	**33%**	0%	Equity method

29. Events after balance sheet date

During the first quarter we have been in discussions with our four syndicate banks to extend our existing banking facilities from 31 March 2022 to 31 March 2025. We have completed renewals with three of the four banks and expect to finalise the remaining documentation with the fourth in early April.

Company Statement of Financial Position

AS AT 31 DECEMBER 2020

	Notes	For the year ended 31 December 2020 £'000	2019 £'000
Non-current assets			
Investments in subsidiary companies	6	**147,743**	147,743
Deferred tax asset	10	**5**	5
		147,748	147,748
Current assets			
Trade and other receivables	7	**1,737**	2,758
Cash and cash equivalents	8	**60**	553
		1,797	3,311
Total assets		**149,545**	151,059
Current liabilities			
Trade and other payables	9	**(601)**	(368)
		(601)	(368)
Net current assets		**1,196**	2,943
Total liabilities		**(601)**	(368)
Net assets		**148,944**	150,691
Capital and reserves			
Called-up share capital	11	**12,012**	12,012
Share premium account		**132,729**	132,729
Retained earnings		**4,203**	5,950
Equity attributable to equity holders of the parent	16	**148,944**	150,691

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 loss dealt with in the financial statements of the Company was £694k (profit 2019: £7,230k).

The financial statements of Animalcare Group plc, registered number 01058015, were approved by the Board of Directors and authorised for issue on 30 March 2021. They were signed on their behalf by:

Jennifer Winter
Chief Executive Officer

Chris Brewster
Chief Financial Officer

Company Statement of Changes in Equity

YEAR ENDED 31 DECEMBER 2020

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2019		12,012	132,729	1,321	146,062
Total comprehensive profit for the period		–	–	7,230	7,230
Transactions with owners of the Company, recognised in equity:		–	–	–	–
Dividends paid		–	–	(2,642)	(2,642)
Share-based payments		–	–	41	41
Balance at 1 January 2020		**12,012**	**132,729**	**5,950**	**150,691**
Total comprehensive loss for the period	3	**–**	**–**	**(694)**	**(694)**
Transactions with owners of the Company, recognised in equity:		**–**	**–**	**–**	**–**
Dividends paid	5	**–**	**–**	**(1,201)**	**(1,201)**
Share-based payments	12	**–**	**–**	**148**	**148**
Balance at 31 December 2020		**12,012**	**132,729**	**4,203**	**148,944**

Company Cash Flow Statement

YEAR ENDED 31 DECEMBER 2020

		For the year ended 31 December	
	Note	**2020 £'000**	2019 £'000
Comprehensive (loss)/income for the year before tax		**(723)**	7,122
Adjustments for:			
Finance cost		**425**	27
Share-based payment expense	12	**148**	41
Operating cash flows before movements in working capital		**(137)**	7,190
(Increase)/decrease in receivables	7	**(128)**	(885)
Increase/(decrease) in payables	9	**1,411**	(4,494)
Net cash flow from operating activities		**1,146**	1,811
Investing activities:			
Interest paid		**(425)**	(27)
Net cash (used in)/generated by investing activities		**(438)**	(27)
Financing:			
Equity dividends paid	5	**(1,201)**	(2,642)
Net cash used in financing activities		**(1,201)**	(2,642)
Net decrease in cash and cash equivalents		**(493)**	(858)
Cash and cash equivalents at start of year		**553**	1,411
Cash and cash equivalents at end of year		**60**	553
Comprising:			
Cash and cash equivalents	8	**60**	553

Notes to the Company Financial Statement

YEAR ENDED 31 DECEMBER 2020

1. Significant accounting policies

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

Basis of preparation

The Company financial statements cover the period of 12 months from 1 January 2020 to 31 December 2020.

The Group financial statements have been prepared and approved by the Directors under the historical cost convention, in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ("IFRS") and the applicable legal requirements of the Companies Act 2006. 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 loss dealt with in the financial statements of the Company was £694k (profit 2019: £7,230k).

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

Going concern

The Directors have assessed the Company's ability to continue in operational existence for the foreseeable future. The uncertainty as to the future impact on the Company of the recent COVID-19 outbreak has been considered as part of the assessment performed by the Group. A detailed summary of the scenarios considered by the Group is included in note 3 to the consolidated financial statements. The Directors have a reasonable expectation that the Group and Company will have sufficient cash flow and resources to continue operating for at least 12 months from the approval date of these financial statements. Accordingly, the Directors continue to adopt the going concern basis of preparation.

Employee benefits – pensions

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

Investments in subsidiaries

Investments in Group companies are stated at cost less provisions for impairment losses.

Dividends

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

Share-based payments

The Company operates a number of equity-settled share-based payment programmes that allow employees to acquire shares in the Company. The Company also operates Long Term Incentive Plans for certain members of the Leadership Team and Executive Directors. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of such equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions (with a corresponding movement in equity).

The fair value of the options issued under the Long Term Incentive Plan have been determined using both the Black–Scholes and Monte Carlo simulation models, in conjunction with a third-party valuation specialist.

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

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

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

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

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

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

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

New standards adopted as of 2020
The Company has no transactions that would be affected by newly effective standards or its accounting policies are already consistent with the new requirements. The Company has not early adopted any other standard.

2. Non-recurring items

	Note	**2020 £'000**	2019 £'000
Professional and other fees relating to the reverse acquisition			
Acquisition expenses		**–**	15
Restructuring and integration costs		**180**	204
Compensation for loss of office	4	**–**	97
Other exceptional costs		**–**	8
Total exceptional and other items		**180**	324

The Company presents certain items as exceptional income or expense that, in the judgement of the Directors, merit separate disclosure by virtue of their nature, size and incidence.

Restructuring and integration costs totalling £180,000 (£204,000) mainly relate to professional fees in respect of Group-wide employment, legal and tax structuring advice.

Compensation for loss of office in 2019 of £97,000 represents the salary paid, including employer social contributions, to Mr Menneer during his gardening leave from 1 January 2019 to 26 April 2019.

3. Total comprehensive (loss)/income for the year

	2020 £'000	2019 £'000
Total comprehensive (loss)/income for the year has been arrived at after charging/(crediting):		
Finance costs	**425**	27
Dividend income received from subsidiary – Ecuphar NV	**–**	7,897

The above items are those charged/credited to total comprehensive (loss)/income only. Full details on items charged 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:

	2020 £'000	2019 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**95**	60
Total audit fees	**95**	60

4. Directors' remuneration and interests

Emoluments

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

Year ended 31 December 2020	**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**	**51**	**25**	**13**	**–**	**294**
C Cardon	**35**	**–**	**–**	**–**	**–**	**35**
M Coucke*	**40**	**–**	**–**	**–**	**–**	**40**
N Downshire*	**40**	**–**	**–**	**–**	**–**	**40**
E Torr*	**45**	**–**	**–**	**–**	**–**	**45**
J Winter	**300**	**94**	**–**	**14**	**–**	**408**
Total	**735**	**145**	**25**	**27**	**–**	**932**

Year ended 31 December 2019	Salary £'000	Bonus £'000	Company pension contributions £'000	Benefits £'000	Compensation for loss of office £'000	Total £'000
J Boone*	70	–	–	–	–	70
C Brewster	205	41	25	13	–	284
C Cardon	35	–	–	–	–	35
M Coucke*	40	–	–	–	–	40
N Downshire*	40	–	–	–	–	40
J S Lambert* (resigned 25 June 2019)	20	–	–	–	–	20
I D Menneer[1]	–	–	–	–	90	90
E Torr*	43	–	–	–	–	43
J Winter	285	71	–	14	–	370
Total	738	112	25	27	90	992

* Indicates Non-Executive Directors

[1] I D Menneer resigned as a Director of the Company on 26 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 1 January 2019 to 26 April 2019 while on gardening leave.

The approved bonus awards to C Brewster and J Winter were accrued as at 31 December 2020 and will be settled post year end.

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

Notes to the Company Financial Statement CONTINUED

YEAR ENDED 31 DECEMBER 2020

Share options

On 17 November 2020, nil-cost options over a total of 232,609 ordinary shares with a nominal value of 20p per share ("the Options") were awarded to the Executive Directors of the Company pursuant to the Company's Long Term Incentive Plan ("the LTIP"). Full details of the LTIP are disclosed in note 12.

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

PDMR	Options awarded	Total Options
Jennifer Winter	165,761	343,331
Chris Brewster	66,848	143,484

5. Dividends

	2020 £'000	2019 £'000
Ordinary final dividend paid for the period ended 31 December 2018 of 2.4p per share	–	1,441
Ordinary interim dividend paid for the period ended 31 December 2019 of 2.0 per share	–	1,201
Ordinary final dividend paid for the period ended 31 December 2020 of 2.0p per share	1,201	–
	1201	2,642

The proposed final dividend of 2.0 pence per share is subject to approval of shareholders at the Annual General Meeting and has not been included as a liability as at 31 December 2020, in accordance with IAS 10 Events After Reporting Period.

6. Investments in subsidiaries

Subsidiary undertakings

Cost	2020 £'000
At 1 January 2020 and 31 December 2020	147,743

The Directors consider that the carrying value of the investments are supported by future cash flows of the subsidiaries. A list of the subsidiary undertakings, all of which are wholly owned, is given below.

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 Pharma Consulting & Trading GmbH	Germany	Brandteichstraße 20, 17489 Greifswald	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 Lisbon	Marketer of veterinary pharmaceuticals	Ordinary

7. Other financial assets

Trade and other receivables

	2020 £'000	2019 £'000
Corporation tax – Group relief	**29**	1,089
Other receivables	**1,140**	871
Prepayments and accrued income	**57**	32
Amounts due from subsidiaries	**510**	766
	1,737	2,758

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

8. Cash and cash equivalents

	2020 £'000	2019 £'000
Cash and cash equivalents	**60**	553

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

9. Other financial liabilities

	2020 £'000	2019 £'000
Trade payables	**282**	248
Other taxes and social security costs	**35**	61
Other creditors	**19**	11
Accruals	**265**	48
	601	368

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 1 January 2019	(5)	–	(2)	(7)
Charge/(credit) to income	2	–	–	2
Balance at 31 December 2019	(3)	–	(2)	(5)
Charge/(credit) to income				
At 31 December 2020	**(3)**	**–**	**(2)**	**(5)**

Deferred tax balances have been calculated at an effective rate of 19%, being the substantively enacted rate at 31 December 2020. The March 2021 Budget announced an increase in the UK standard rate of corporation tax to 25% from 1 April 2023. The legislation was not enacted during the year so deferred tax has been provided using the enacted rate of 19%.

11. Share capital

	No.	**£'000**
Allotted, called up and fully paid at 1 January 2020 and 31 December 2020	**60,057,161**	**12,012**

Notes to the Company Financial Statement CONTINUED

YEAR ENDED 31 DECEMBER 2020

12. Share-based payments

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

Animalcare Group plc Executive Share Option Scheme

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

SAYE Option Scheme

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

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

	EMI		SAYE	
	Options	Price £	Options	Price £
Outstanding at 1 January 2020	**72,500**	**2.00**	**6,629**	**2.28**
Lapsed during the year	(20,000)	1.56	(6,629)	2.28
Open at 31 December 2020				
Exercisable at the end of the year	**52,500**	**2.17**	**–**	**–**

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	£2.16	£2.84
Weighted average exercise price	£2.16	£2.28
Expected volatility	41.0%	40.0%
Expected life	3.0 years	3.1 years
Risk-free rate	0.5%	0.5%

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

Long Term Incentive Plan ("LTIP")

On 17 November 2020, nil-cost options over a total of 377,120 ordinary shares with a nominal value of 20p per share ("the Options") were awarded to certain Executive Directors and PDMRs of the Company and to members of the Group Leadership Team pursuant to the Company's Long Term Incentive Plan.

The awards will normally vest three years after the date of grant subject to the following performance criteria being met over the three-year financial period ending 31 December 2023. The Options will vest to the extent the following performance conditions based on EPS and TSR are met:

Earnings Per Share growth	Extent to which EPS tranche will vest
Less than 3%	0%
3%	25%
8%	100%
Between 3% and 8%	Between 25% and 100% on a straight-line basis

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

Fifty per cent of the option award will be subject to the EPS performance condition and the remaining 50% will be subject to the TSR performance condition. Accordingly, if one of the performance conditions is met but the other is not, the Option award will vest in part.

The fair value of the options issued under the Long Term Incentive Plan have been determined using both the Black–Scholes and Monte Carlo simulation models, in conjunction with a third-party valuation specialist.

12. Share-based payments CONTINUED

Inputs into the option pricing models were as follows:

Weighted average share price	£1.72
Weighted average exercise price	£nil
Expected volatility	29.0%
Expected life	3.1 years
Expected dividend yield	2.3%
Fair value per option – EPS tranche	£1.60
Fair value per option – TSR tranche	£1.25
Risk-free rate	0.5%

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

The awards will normally vest three years after the date of grant subject to the following performance criteria being met over the three-year financial period ending 31 December 2021. The Options will vest to the extent the following performance conditions based on EPS and TSR are met:

Earnings Per Share growth	Extent to which EPS tranche will vest
Less than 3%	0%
3%	25%
8%	100%
Between 3% and 8%	Between 25% and 100% on a straight-line basis

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

Fifty per cent of the option award will be subject to the EPS performance condition and the remaining 50% will be subject to the TSR performance condition. Accordingly, if one of the performance conditions is met but the other is not, the Option award will vest in part.

The fair value of the options issued under the Long Term Incentive Plan have been determined using both the Black–Scholes and Monte Carlo simulation models, in conjunction with a third-party valuation specialist.

Inputs into the option pricing models were as follows:

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

The Company recognised a total charge in respect of share-based payments of £148,000 (2019: £12,000).

13. Related party transactions

Trading transactions

During the years ended 31 December 2020 and 31 December 2019, the following trading transactions took place between the Company and its subsidiaries, Animalcare Ltd and Ecuphar NV.

2020	**Ecuphar NV £'000**	**Animalcare Ltd £'000**	**Total £'000**
Management charges levied	**928**	**–**	**928**

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

Remuneration of key management personnel

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

Directors and Advisers

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C J Brewster
E Torr
J Boone
J Winter
Lord Downshire
M Coucke

Secretary
C J Brewster

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