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 2021 and of the Group's loss and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 2021; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company statements of changes in equity and the consolidated and Company cash flow statements for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Our audit approach

Overview

Audit scope

- The Group is organised into 13 reporting components and the Group financial statements are a consolidation of these reporting components. The reporting components vary in size.
- We identified five components that required a full scope audit of their financial information due to either their size or risk characteristics. Of these, Animalcare Group plc and Animalcare Ltd were audited by the Group engagement team. Ecuphar N.V., Ecuphar Veterinaria S.L. and Ecuphar GmbH were audited by PwC component auditors. STEM Animal Health Inc. was also included for a full scope audit due to material disclosures with respect to its financial position and results that are included within the consolidated financial statements. This audit was undertaken by a non-PwC component auditor. The Group engagement team also audited material consolidation journals.
- One reporting component, Ecuphar Italia Srl., was also subject to audit procedures performed by the Group engagement team over specific balances due to its contribution to the overall financial statement line items cash and cash equivalents, and payroll-related liabilities in the consolidated financial statements.
- As a result of this scoping we obtained coverage over 78% of the Group's revenues and 91% of the Group's Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA), adjusted for non-recurring items.

Key audit matters

- Carrying value of intangibles may be impaired (Group)
- Risk of impairment of investments in subsidiary companies (Company)

Materiality

- Overall Group materiality: £336,000 (2020: £302,000) based on 2.5% of Earnings Before Interest, Tax, Depreciation and Amortisation, adjusted for non-recurring items.
- Overall Company materiality: £210,000 (2020: £210,000) based on 1% of total assets (capped below Group materiality).
- Performance materiality: £252,000 (2020: £226,500) (Group) and £157,500 (2020: £157,500) (Company).

The scope of our audit

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

Key audit matters

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

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

Carrying value of intangibles may be impaired (Group) is a new key audit matter this year. Impact of COVID-19 (Group and Company) and Risk of impairment to assets – Goodwill and acquired intangible assets (Group), which were key audit matters last year, are no longer included because of: the reduced impact of COVID-19 in relation to the going concern basis of preparation and risk of material misstatement of the financial statements as a consequence of COVID-19 on the Group and Company; and because of the reduced risk of material misstatement of the goodwill and acquired intangible assets balances on the Group. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Carrying value of intangibles may be impaired (Group) The Group has a significant amount of product development related intangible assets, with a net book value as at 31 December 2021 of £28.5 million (2020: £37.0 million). This intangibles category comprises product portfolios and development costs, in-process research and development costs and patents, distribution rights and licences. These intangible assets include both assets acquired in either business combinations or individual transactions, and internally generated intangibles capitalised in accordance with the accounting policies set out in the summary of significant accounting policies in the notes to the consolidated financial statements (Note 3). These assets are reviewed annually for impairment indicators with an impairment review performed where necessary. During the year, impairment indicators were noted on various product development related projects, with the subsequent impairment assessment resulting in an impairment charge of £2.8 million. For those assets relating to acquired intangibles where an impairment assessment is required to support the carrying value of the assets associated with each project, management have prepared discounted cash flows to support the carrying value of the project. The discounted cash flows include a number of estimates, with the key assumptions being: • The forecast cash flows of the individual products; • The long-term growth rate used within the forecasts; and • The discount rate applied to the cash flows. For those assets relating to capitalised in-process research and development costs, patents, distribution rights and licences and product portfolios and product development costs, where an impairment assessment is required to support the carrying value of the assets associated with each project, management have prepared forecasts of future sales and margins which involve estimates. See the summary of significant accounting policies section within the financial statements for disclosure of the related accounting policies, judgements and estimates and Note 16 within the consolidated financial statements for details of intangible assets.	We have reviewed the forecast financial performance of the projects within the product development related intangibles and held discussions with management to understand their assessment of potential impairment indicators. With respect to the assessments supporting the carrying values our procedures included the following: • We tested the mathematical accuracy of the impairment models and agreed the carrying values of the assets being assessed for impairment to the balance sheet; • We compared the assumed forecast sales and margins by product to historical actuals for those products; • We considered the accuracy of previous forecasts; • We challenged management's calculated group weighted average cost of capital (WACC) used for discounting future cash flows within the impairment models for the acquired intangibles, utilising valuation experts to assess the cost of capital for the Group and comparable organisations; • We assessed the long-term growth rate used by comparing it to third-party forecast long-term growth rates utilising valuation experts; and • Where an impairment was required, we gained an understanding over the facts and circumstances that resulted in the impairment. Based on the procedures performed, no issues have been noted with the carrying value of product development related intangibles. The impairment charge recorded during the year and the associated disclosures within the consolidated financial statements are considered to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Risk of impairment of investments in subsidiary companies (Company) The parent company has investments in subsidiary companies of £147.7 million (2020: £147.7 million), which is reviewed annually for impairment indicators with an impairment review performed where necessary. The impairment review is performed in conjunction with the annual impairment review of goodwill and acquired intangible assets at a Group level. No impairment charge has been recorded by management in the current year with respect to the carrying value of the investments balance within Animalcare Group plc. The risk we have focused on is that the investments in subsidiary companies balance could be overstated and an impairment charge may be required. We focused on this area because the determination of whether or not the investments in subsidiary companies are impaired involves estimates about the future results and cash flows of the business. The headroom for the carrying value of investments is calculated by comparing the value in use of the Group with the carrying value of the investments in subsidiary companies balance. The determination of the value in use includes a number of key assumptions which include: • Forecast cash flows for the next five years; • A long-term (terminal) growth rate applied beyond the end of the five-year forecast period; and • A discount rate applied to the model. See the significant accounting policies section within the financial statements for disclosure of the related accounting policies, judgements and estimates and Note 6 within the Company only financial statements for details of the investments in subsidiary companies.	We understood and evaluated management's budgeting and forecasting process. We obtained the impairment analysis and undertook the following: • We tested the mathematical accuracy of the impairment model and agreed the carrying value of the investments balance to the balance sheet; • We challenged management's calculated Group weighted average cost of capital (WACC) used for discounting future cash flows within the impairment model, utilising valuation experts to assess the cost of capital for the Group and comparable organisations; • We traced the forecast financial information within the model to the latest Board approved budget. We have also compared FY21 actuals to the FY22–FY26 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 assessed the long-term growth rate used by comparing it to third-party forecast long-term growth rates utilising valuation experts; and • We performed sensitivity analyses to ascertain the impact of reasonably possible changes in key assumptions. In summary, we found, based on our audit work, the carrying value of investments in subsidiaries to be reasonable.

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 13 reporting components and the Group financial statements are a consolidation of these reporting components. The reporting components vary in size. Our audit scope was determined by considering the significance of each component's contribution to EBITDA, adjusted for non-recurring items, as well as considering the level of coverage obtained for each individual financial statement line item.

We identified five components that required a full scope audit of their financial information due to either their size or risk characteristics. Of these, Animalcare Group plc and Animalcare Ltd were audited by the Group engagement team. Ecuphar N.V., Ecuphar Veterinaria S.L. and Ecuphar GmbH were audited by PwC component auditors. STEM Animal Health Inc. was also included for a full scope audit due to material disclosures with respect to its financial position and results that are included within the consolidated financial statements. This audit was undertaken by a non-PwC component auditor. The Group engagement team also audited material consolidation journals.

One reporting component, Ecuphar Italia Srl., was also subject to audit procedures performed by the Group engagement team over specific balances due to its contribution to the overall financial statement line items cash and cash equivalents and payroll- related liabilities in the consolidated financial statements.

The Group audit team supervised the direction and execution of the audit procedures performed by the PwC 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.

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

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

Materiality

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

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

	Financial statements – Group	**Financial statements – Company**
Overall materiality	£336,000 (2020: £302,000).	£210,000 (2020: £210,000).
How we determined it	2.5% of Earnings Before Interest, Tax, Depreciation and Amortisation, adjusted for non-recurring items.	1% of total assets (capped below group materiality).
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, EBITDA, adjusted for non-recurring 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 total assets are considered to be appropriate as the entity is not a profit-oriented company. The Company is a holding company only and total assets is a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £70,000 to £280,000. 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% (2020: 75%) of overall materiality, amounting to £252,000 (2020: £226,500) for the Group financial statements and £157,500 (2020: £157,500) for the Company financial statements.

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £16,800 (Group audit) (2020: £15,100) and £10,500 (Company audit) (2020: £10,500) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- We assessed management's base case forecast, as well as their severe but plausible downside scenario, which have formed the basis for the Group's assessment and conclusions with respect to their ability to continue as a going concern;
- We 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 2022 to management's budget; and
- We reviewed the disclosures within the Annual Report with respect to going concern.

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

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

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

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

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 2021 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.

Independent Auditors' Report to the members of Animalcare Group plc

CONTINUED

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax legislation, employment regulations, 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 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 investments, carrying value of goodwill and acquired intangible assets and capitalisation and carrying value of intangibles.

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

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

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

Use of this report

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

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

IAN MORRISON
(Senior Statutory Auditor)

for and on behalf of
PricewaterhouseCoopers LLP

Chartered Accountants and
Statutory Auditors
Leeds

29 March 2022

Consolidated Income Statement

YEAR ENDED 31 DECEMBER 2021

		For the year ended 31 December					
	Notes	Underlying 2021 £'000	Non-Underlying (Note 4) 2021 £'000	Total 2021 £'000	Underlying 2020 £'000	Non-Underlying (Note 5) 2020 £'000	Total 2020 £'000
Revenue	5	**74,024**	**–**	**74,024**	70,494	–	70,494
Cost of sales	6.1	**(34,606)**	**–**	**(34,606)**	(33,935)	–	(33,935)
Gross profit		**39,418**	**–**	**39,418**	36,559	–	36,559
Research and development expenses	6.2	**(2,181)**	**(951)**	**(3,132)**	(2,386)	(1,100)	(3,486)
Selling and marketing expenses	6.3	**(12,277)**	**–**	**(12,277)**	(12,325)	–	(12,325)
General and administrative expenses	6.4	**(14,482)**	**(4,580)**	**(19,062)**	(13,302)	(4,800)	(18,102)
Net other operating (expense)/income	6.5	**115**	**(3,073)**	**(2,958)**	15	(1,858)	(1,843)
Operating profit/(loss)		**10,593**	**(8,604)**	**1,989**	8,561	(7,758)	803
Financial expenses	6.8	**(2,613)**	**–**	**(2,613)**	(1,051)	–	(1,051)
Financial income	6.9	**1,757**	**–**	**1,757**	540	–	540
Financial expenses net		**(856)**	**–**	**(856)**	(511)	–	(511)
Share in net loss of joint ventures accounted for using the equity method	11	**(188)**	**–**	**(188)**	(93)	–	(93)
Profit/(loss) before tax		**9,549**	**(8,604)**	**945**	7,957	(7,758)	199
Income tax	6.10	**(2,325)**	**1,303**	**(1,022)**	(1,604)	1,639	35
(Loss)/profit for the year		**7,224**	**(7,301)**	**(77)**	6,353	(6,119)	234
Net profit/(loss) attributable to:							
The owners of the parent		**7,224**	**(7,301)**	**(77)**	6,353	(6,119)	234
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:							
Basic earnings per share	7	**12.0p**	**–**	**(0.1p)**	10.6p	–	0.4p
Diluted earnings per share	7	**12.0p**	**–**	**(0.1p)**	10.6p	–	0.4p

In order to aid understanding of underlying business performance, the Directors have presented underlying results before the effect of exceptional and other items. These exceptional and other items are analysed in detail in Note 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 2021

	For the year ended 31 December	
	2021 £'000	2020 £'000
(Loss)/ profit for the year	**(77)**	234
Other comprehensive income		
Cumulative translation differences *	**(638)**	508
Other comprehensive (loss)/ income, net of tax	**(638)**	508
Total comprehensive (loss)/ income for the year, net of tax	**(715)**	742
Total comprehensive (loss)/ income attributable to:		
The owners of the parent	**(715)**	742

* May be reclassified subsequently to profit and loss

Consolidated Statement of Financial Position

YEAR ENDED 31 DECEMBER 2021

	Notes	For the year ended 31 December 2021 £'000	2020 £'000
Assets			
Non-current assets			
Goodwill	8	**50,337**	50,987
Intangible assets	9	**29,719**	37,812
Property, plant and equipment	10	**626**	265
Right-of-use-assets	23	**1,658**	1,790
Investments in joint ventures	11	**1,290**	1,457
Deferred tax assets	6.10	**1,963**	2,220
Other financial assets		**90**	63
Other non-current assets	13	**24**	48
Total non-current assets		**85,707**	94,642
Current assets			
Inventories	12	**10,328**	12,797
Trade receivables	13	**7,135**	10,142
Other current assets	13	**1,200**	1,589
Cash and cash equivalents	14	**5,633**	5,265
Total current assets		**24,296**	29,793
Total assets		**110,003**	124,435
Liabilities			
Current liabilities			
Borrowings	16	**–**	(637)
Lease liabilities	23	**(723)**	(951)
Trade payables	15	**(10,021)**	(11,348)
Tax payables		**(471)**	(553)
Accrued charges and deferred income	19	**(1,083)**	(2,686)
Other current liabilities	20	**(2,156)**	(3,202)
Total current liabilities		**(14,454)**	(19,377)
Non-current liabilities			
Borrowings	16	**(9,243)**	(16,432)
Lease liabilities	23	**(996)**	(861)
Deferred tax liabilities	6.10	**(4,271)**	(4,804)
Contract liabilities	19	**(675)**	(556)
Provisions	17	**(408)**	(96)
Other non-current liabilities	18	**(1,157)**	(717)
Total non-current liabilities		**(16,750)**	(23,466)
Total liabilities		**(31,204)**	(42,843)
Net assets		**78,799**	81,592
Equity			
Share capital	22	**12,019**	12,012
Share premium	22	**132,798**	132,729
Reverse acquisition reserve		**(56,762)**	(56,762)
Accumulated losses	22	**(11,676)**	(9,445)
Other reserves		**2,420**	3,058
Equity attributable to the owners of the parent		**78,799**	81,592
Total equity		**78,799**	81,592

The accompanying notes on pages 86 to 126 form an integral part of these consolidated financial statements.

The financial statements of Animalcare Group plc on pages 127 to 141, registered number 01058015, were approved by the Board of Directors and authorised for issue on 29 March 2022. 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 2021

	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
At 1 January 2021	12,012	132,729	(9,445)	(56,762)	3,058	81,592
Loss for the year	–	–	(77)	–	–	(77)
Other comprehensive expense	–	–	–	–	(638)	(638)
Total comprehensive expense	–	–	(77)	–	(638)	(715)
Dividends paid	–	–	(2,403)	–	–	(2,403)
Exercise of share options	7	69	–	–	–	76
Share-based payments	–	–	249	–	–	249
At 31 December 2021	**12,019**	**132,798**	**(11,676)**	**(56,762)**	**2,420**	**78,799**

	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
At 1 January 2020	12,012	132,729	(8,640)	(56,762)	2,550	81,889
Profit for the year	–	–	234	–	–	234
Other comprehensive income	–	–	–	–	508	508
Total comprehensive expense	–	–	234	–	508	742
Dividends paid	–	–	(1,201)	–	–	(1,201)
Share-based payments	–	–	162	–	–	162
At 31 December 2020	12,012	132,729	(9,445)	(56,762)	3,058	81,592

Reverse acquisition reserve

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

Other reserve

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

Consolidated Cash Flow Statement

YEAR ENDED 31 DECEMBER 2021

	Notes	For the year ended 31 December 2021 £'000	2020 £'000
Operating activities			
Profit before tax		**945**	199
Non-cash and operational adjustments			
Share in net loss of joint ventures	11	**188**	93
Depreciation of property, plant and equipment	10/23	**1,185**	1,243
Amortisation of intangible assets	9	**7,217**	8,149
Impairment of intangible assets	9	**2,761**	19
Share-based payment expense	26	**249**	162
(Gain)/loss on disposal of fixed assets		**(396)**	(16)
Non-cash movement in provisions		**120**	534
Movement allowance for bad debt and inventories		**760**	509
Financial income		**(459)**	(219)
Financial expense		**1,221**	815
Impact of foreign currencies		**88**	(82)
Fair value adjustment contingent consideration		**(17)**	–
Movements in working capital			
Decrease in trade receivables		**3,541**	640
Decrease/(increase) in inventories		**1,356**	(1,615)
(Decrease)/increase in payables		**(2,698)**	882
Income tax paid		**(2,038)**	(196)
Net cash flow from operating activities		**14,023**	11,117
Investing activities			
Purchase of property, plant and equipment	10	**(557)**	(177)
Purchase of intangible assets	9	**(2,658)**	(2,258)
Proceeds from the sale of property, plant and equipment (net)		**540**	122
Capital contribution in joint venture	11	**(289)**	(593)
Net cash flow used in investing activities		**(2,964)**	(2,906)
Financing activities			
Repayment of loans and borrowings		**(6,952)**	(6,007)
Repayment of IFRS16 lease liability	23	**(1,024)**	(1,081)
Receipts from issue of share capital		**76**	–
Dividends paid	22	**(2,403)**	(1,201)
Interest paid		**(447)**	(516)
Other financial (expense)/income		**(213)**	(53)
Net cash flow used in financing activities		**(10,963)**	(8,858)
Net increase/(decrease) in cash and cash equivalents		**96**	(647)
Cash and cash equivalents at beginning of year	14	**5,265**	6,165
Exchange rate differences on cash and cash equivalents		**272**	(253)
Cash and cash equivalents at end of year	14	**5,633**	5,265

	Notes	For the year ended 31 December **2021** **£'000**	 2020 £'000
Reconciliation of net cash flow to movement in net debt			
Net increase in cash and cash equivalents in the year		**96**	(647)
Cash flow from decrease in debt financing		**6,952**	6,007
Foreign exchange differences on cash and borrowings		**1,148**	(1,290)
Movement in net debt during the year		**8,196**	4,070
Net debt at the start of the year		**(13,618)**	(17,812)
Movement in lease liabilities during the year	23	**92**	124
Net debt at the end of the year		**(5,330)**	(13,618)

Notes to the Consolidated Financial Statements

YEAR ENDED 31 DECEMBER 2021

1 FINANCIAL INFORMATION

Animalcare Group plc ("the Company") is a public company incorporated in the United Kingdom under the Companies Act 2006 and is domiciled in the United Kingdom. The address of its registered office is Unit 7, 10 Great North Way, York Business Park, York, YO26 6RB. The Group comprises Animalcare Group plc and its subsidiaries. The nature of the Group's operations and its principal activities are set out within the Directors' Report. Details of the subsidiaries can be found in Note 27.

2 BASIS OF PREPARATION

The Group financial statements have been prepared and approved by the Directors, except for the revaluation of certain financial instruments, as explained in Note 10, in accordance with UK-adopted international accounting standards ("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.

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

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

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 2021 and compromise the consolidated results of the Group described in Note 1.

In preparing the financial statements of the Group we have considered the impact of climate change, with reference to our principal risks and the environmental disclosures made in the Sustainability Report on page 38. There has been no material impact on the financial statements for the current year, including estimates and judgements made in respect of impairment and going concern analyses. The Directors have also assessed climate change is not expected to have a meaningful impact on the Group in the medium term. The Group's analysis on the impact of climate change continues to evolve as part of our ESG agenda.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Going concern

The Directors have prepared cash flow forecasts for a period of at least 12 months from the date of signing of these financial statements (the going concern assessment period). These forecasts indicate that the Group will have sufficient funds to meet its obligations as they fall due, taking into account the potential impact of "severe but plausible" downside scenarios to factor in a range of downside revenue estimates, including further unexpected COVID disruptions, and higher than expected inflation across our cost base, with corresponding mitigating actions.

The output from these scenarios shows the Group has adequate levels of liquidity from its committed facilities and complies with all its banking covenants throughout the going concern assessment period. Accordingly, the Directors continue to adopt the going concern basis of preparation.

The Group's financing arrangements consist of a committed revolving credit facility of €41.5m and a €10m acquisition line, which cannot be utilised to fund our operations.

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

Net debt to underlying EBITDA ratio of 3.5 times; underlying EBITDA to interest ratio of minimum 4 times; and solvency (total assets less goodwill/ total equity less goodwill) greater than 25%. As at 31 December 2021 and throughout the financial year, all covenant requirements were met with significant headroom across all three measures. The principal risks and uncertainties facing the Group are set out in the Strategic Report on pages 27 to 33.

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.

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

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.

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 2020 and 2021. 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 functional currency 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. 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
• 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.

To determine the incremental borrowing rate, the Group:

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

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

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

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

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The term varies between 4 to 5 years. 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	7-15 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 an investment in a joint venture (Stem Animal Health Inc.). The Group's investment in its joint venture is accounted for using the equity method.

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

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

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

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

Financial assets measured at amortised cost

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

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

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

Financial instruments measured at fair value through profit or loss

The Group 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.

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 December 18, 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 1st January 2016 considering the modified law. Previously, the Group has adopted a retrospective approach whereby the net liability recognised in the statement of financial position is based on the sum of the positive differences, determined by individual plan participant, between the minimum guaranteed reserves and the benefits accrued at the closing date based on the actual rates of return.

Contributions are recognised as expenses for the period in which employees perform the corresponding services. Outstanding payments at the end of the 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. In case of product sales, satisfaction of performance obligations and related revenues recognition takes place at a point in time which takes place when the control of these goods are transferred to the customer, generally on delivery of the goods.

The Group recognises service revenue by reference to the stage of completion, as there is no contractual restriction on the amount of times the customer makes use of the services. At the commencement of the contract, it is not possible to determine how many times the customer will make use of the services, nor does historical evidence provide indications of any future pattern of use. As such, income is recognised evenly over the term of the contract, currently between eight and 14 years.

Up-front income received in relation to long-term service contracts is deferred and subsequently recognised over the life of the relevant contracts.

Interest income

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

Financing costs

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

Other financial income and expenses

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

Taxes

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

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

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

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

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

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

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

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic 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 2021

Standards and interpretations applicable for the annual period beginning on or after 1 January 2021:

- 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)
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9, effective 1 January 2021
- Amendment to IFRS 16 Leases COVID-19-Related Rent Concessions , effective 1 June 2020, with early application permitted

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 2021

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.

- Amendment to IFRS 16 Leases COVID-19-Related Rent Concessions beyond 30 June 2021 (effective 1 April 2021, with early application permitted)

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current effective 1 January 2023
- Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements, effective 1 January 2022
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies, effective 1 January 2023
- IFRS 17 Insurance contracts effective 1 January 2023
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates, effective 1 January 2023
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction, effective 1 January 2023

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 the next financial year.

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 2021, the Group had £1,749k (2020: £1,929k) of tax losses carried forward and other tax credits such as investment tax credits and notional interest deduction. These losses relate to the subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group.

Impairment of goodwill

The Group has goodwill for a total amount of £50,337k (2020: £50,987k) which has been subject to an impairment test. The goodwill is tested for impairment based on the value in use (VIU). The key assumptions for the VIU calculations are disclosed and further explained in Note 8.

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.

Stem Animal Health Inc. – joint control

On 28 September 2020 the Group announced that it has entered into an agreement with Canada-based biotech company Kane Biotech Inc. under which the parties formed STEM Animal Health Inc. ("STEM"), a company dedicated to treating biofilm-related ailments in animals. The Group acquired, via its 100% subsidiary Ecuphar NV, 33.34% in STEM for a cash consideration of CA$3m, of which CA$1m was paid in 2020, CA$0.5m during the financial year and CA$1.5m still payable over 34 months. The Group has an option, for a period of five years, to acquire an additional one-sixth stake in STEM for CA$4 million. Based on the existing voting rights (33.34%) and other contractual arrangements, the Group does not have power over the investee. Further disclosure is provided in Note 3 significant accounting judgements, estimates and assumptions.

Accordingly, the investment in STEM is accounted for through the equity method in the consolidated statements.

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

Both the remaining equity investment in STEM and the licensing fee are expected to be paid from existing cash resources.

During the financial year the Group made its first license payment of CA$0.5m. The following payment is due in 2023, therefore only a long-term payable of CA$1.3m or £766k is remaining. Further, for the capital contribution, the outstanding short-term liability is £277k (2020: £272k), shown in the balance sheet as other current liability. The outstanding long-term liability is £502k (2020: £717k), shown in the balance sheet as other non-current liability. The Group 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 license over Kane Biotech's existing range of animal health oral care products, where Kane grants STEM an irrevocable, exclusive, fully paid up, royalty-free, right and license in the market and, to develop, manufacture and commercialise the products and to practice the licensed intellectual property.
- Management is of the view that the Group doesn't have control over STEM, exposure, or rights, to variable returns from its involvement with STEM. Management consider that the call option is not substantive and not favourable as of 31 December 2021 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 that, based on the nature of the pre-agreed decisions which require special consent listed in the shareholders' agreement, both the Group and Kane have joint control over STEM.
- It was agreed between both parties that STEM will benefit from predetermined mark-up on the products STEM produce, which will be distributed to both parties through dividends and that the Group doesn't have access to STEM assets or to incur liabilities on behalf of STEM. Accordingly, management is of the view that based on the IFRS 11 Joint Arrangement flow chart, the nature of the arrangement consists of a joint venture rather than joint operations.

4 NON-UNDERLYING ITEMS

	For the year ended 31 December 2021 £'000	2020 £'000
Amortisation and impairment of acquisition-related intangibles		
Classified within research and development expenses	**951**	1,100
Classified within general and administrative expenses	**4,580**	4,800
Classified within net other operating expenses	**2,761**	–
Total amortisation and impairment of acquisition-related intangibles	**8,292**	5,900
Restructuring costs	**17**	415
Acquisition and integration costs	**188**	698
Brexit-related costs	**–**	5
Divestments and business disposals	**(462)**	85
COVID-19	**11**	283
Other non-underlying items	**558**	372
Total non-underlying items before taxes	**8,604**	7,758
Tax impact	**(1,303)**	(1,639)
Total non-underlying items after taxes	**7,301**	6,119

The amortisation charge of acquisition-related intangibles largely relates to the Esteve acquisition of £1,980k (2020: £2,047k), the Riemser acquisition of £212k (2020: £373k) and the reverse acquisition of Animalcare Group plc of £3,375k (2020: £3,479k).

The impairment charge of £2,761k. (2020: £nil) primarily reflects the non-cash impairment of four projects that formed part of the acquired development pipeline, the principal drivers for which are:

- the recall and suspension of all products containing ranitidine for human use by European and US authorities. Consequently, Animalcare has ceased development of ranitidine for animal use; and
- technical and manufacturing issues that have significantly impacted the timing of supply and expected commercial returns of an equine product.

Expenses relating to acquisition, business development, integration, restructuring and other costs of £0.8m (2020: £1.5m) include the carve out and partnership of Identicare Ltd, our microchipping and database services business, with effect from 1 January 2022, reorganisation and restructuring of our Belgium and UK logistic operations and the relocation of our Spanish office.

Finally, strong focus on core higher margin brands have led to several product divestments with associated income on sale of £462k (2020:£85k).

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

5 SEGMENT INFORMATION

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

The measurement principles used by the Group in preparing this segment reporting are also the basis for segment performance assessment. The Board of Directors of the Group acts as the Chief Operating Decision Maker. As a performance indicator, the Chief Operating Decision Maker controls performance by the Group's revenue, gross margin, underlying EBITDA and EBITDA. EBITDA is defined by the Group as net profit plus finance expenses, less 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 2021 and 2020. As management's controlling instrument is mainly revenue-based, the reporting information does not include assets and liabilities by segment and is, as such, not presented per segment.

	For the year ended 31 December	
	2021 £'000	2020 £'000
Pharma		
Revenues	**74,024**	70,494
Gross profit	**39,418**	36,559
Gross profit %	**53%**	52%
Segment underlying EBITDA	**13,455**	12,091
Segment underlying EBITDA %	**18%**	17%
Segment EBITDA	**13,143**	10,231
Segment EBITDA %	**18%**	15%

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

	For the year ended 31 December	
	2021 £'000	2020 £'000
EBITDA	**13,143**	10,231
Depreciation, amortisation and impairment	**(11,154)**	(9,428)
Operating profit/(loss)	**1,989**	803
Financial expenses	**(2,613)**	(1,051)
Financial income	**1,757**	540
Share in net profit/(loss) of joint ventures	**(188)**	(93)
Income taxes	**(1,371)**	(985)
Deferred taxes	**349**	1,020
(Loss)/profit for the year	**(77)**	234

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	
	2021 £'000	2020 £'000
Belgium	**8,834**	11,353
Spain	**2,811**	2,476
Portugal	**4,061**	4,276
UK	**62,157**	68,042
Other	**5,881**	6,275
Non-current assets excluding deferred tax assets and financial instruments	**83,744**	92,422

Revenue by product category

	For the year ended 31 December	
	2021 £'000	2020 £'000
Companion animals	**51,326**	44,808
Production animals	**16,980**	19,720
Horses	**5,637**	5,947
Other	**81**	19
Total	**74,024**	70,494

Revenue by geographical area

	For the year ended 31 December	
	2021 £'000	2020 £'000
Belgium	**4,023**	9,502
The Netherlands	**1,769**	1,326
United Kingdom	**15,471**	11,553
Germany	**10,373**	10,746
Spain	**21,035**	17,990
Italy	**8,885**	7,935
Portugal	**4,193**	4,554
European Union – other	**6,971**	5,621
Asia	**681**	782
Middle East Africa	**1**	81
Other	**622**	404
Total	**74,024**	70,494

Revenue by category

	For the year ended 31 December	
	2021 £'000	2020 £'000
Product sales	**72,651**	69,443
Services sales	**1,373**	1,051
Total	**74,024**	70,494

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

6 INCOME AND EXPENSES

6.1 Cost of sales

Cost of sales includes the following expenses:

	For the year ended 31 December	
	2021 £'000	2020 £'000
Purchase of goods and services	**33,016**	33,286
Inventory and other write-downs	**154**	161
Cost (reversal) stock devaluation	**227**	(340)
Payroll expenses	**439**	378
Other expenses	**770**	450
Total	**34,606**	33,935

6.2 Research and development expenses

Research and development expenses include the following:

	For the year ended 31 December	
	2021 £'000	2020 £'000
Amortisation and depreciation	**1,681**	1,807
Payroll expenses	**1,361**	1,411
Other R&D expenses	**90**	268
Total	**3,132**	3,486

6.3 Selling and marketing expenses

Selling and marketing expenses include the following:

	For the year ended 31 December	
	2021 £'000	2020 £'000
Transport costs of sold goods	**823**	914
Promotion costs	**2,792**	1,832
Payroll expenses	**7,545**	8,653
Amortisation and depreciation	**2**	6
Other	**1,115**	920
Total	**12,277**	12,325

6.4 General and administrative expenses

General and administrative expenses include the following:

	For the year ended 31 December	
	2021 £'000	2020 £'000
Amortisation and depreciation	**6,705**	7,575
Payroll expenses	**4,430**	4,068
Other	**7,927**	6,459
Total	**19,062**	18,102

The expenses in other mainly relate to fees paid for services, training and seminars, IT and software related costs, and travel and representation.

6.5 Net other operating expenses

The net other operating expenses can be detailed as follows:

	For the year ended 31 December	
	2021 £'000	2020 £'000
Re-invoicing costs	**(53)**	(7)
Gains/losses on disposals of fixed assets	**(16)**	(16)
Other operating income	**(441)**	(124)
Impairments	**2,761**	19
Other operating expenses	**707**	1,971
Total	**2,958**	1,843

The current year non-cash impairment charge of £2,761k relates to impairment of acquired or in-process R&D due to regulatory and technical issues.

Other operating expenses for 2021 and 2020 principally relate to restructuring and integration costs.

6.6 Expenses by nature

	For the year ended 31 December	
	2021 £'000	2020 £'000
Other operating lease rentals/short-term leases	**646**	682
Employee expenses	**13,336**	14,132
Depreciation and amortisation	**8,402**	9,388
Transport costs sold goods	**823**	914
Promotion costs	**2,643**	1,832
Other operating expense/(income) – Note 6.5	**2,958**	1,843
Other expenses	**8,621**	6,965
Total expenses	**37,429**	35,756

6.7 Payroll expenses

The following table shows the breakdown of payroll expenses for 2021 and 2020:

	For the year ended 31 December	
	2021 £'000	2020 £'000
Wages and salaries	**11,775**	12,529
Social security costs	**1,788**	1,762
Other pension costs	**212**	219
Total	**13,775**	14,510
The monthly average number of employees during the year was as follows:		
Sales and administration	**207**	205
Distribution	**4**	6

The payroll expenses for the year are impacted by the share-based payments. For more information 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	
	2021 £'000	2020 £'000
Interest expense	**447**	516
Foreign currency losses	**1,912**	418
Change in fair value – losses on financial instruments	**85**	17
Other financial expenses	**169**	100
Total	**2,613**	1,051

6.9 Financial income

Financial income includes the following elements:

	For the year ended 31 December	
	2021 £'000	2020 £'000
Foreign currency exchange gains	**1,754**	518
Income from financial assets	**1**	13
Other financial income	**2**	9
Total	**1,757**	540

6.10 Income tax

Income tax

The following table shows the breakdown of the tax expense for 2021 and 2020:

	For the year ended 31 December	
	2021 £'000	2020 £'000
Current tax charge	**(1,371)**	(830)
Tax adjustments in respect of previous years	**–**	(155)
Total current tax charge	**(1,371)**	(985)
Deferred tax – origination and reversal of temporary differences	**458**	950
Deferred tax – adjustments in respect of previous years	**(109)**	70
Total deferred tax credit	**349**	1,020
Total tax (expense)/income for the year	**(1,022)**	35

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

	For the year ended 31 December	
	2021 £'000	2020 £'000
Profit before tax	**945**	199
Share in net loss/(profit) of joint ventures	**(188)**	(93)
Profit before tax, excl. Share in net loss of joint ventures	**1,133**	292
Tax at 19% (2020: 19%)	**(215)**	(55)
Effect of:		
Overseas tax rates	**(386)**	(262)
Non-deductible expenses	**(180)**	(109)
Other taxes	**–**	(7)
Use of tax losses previously not recognised	**76**	181
Changes in statutory enacted tax rate	**(273)**	(4)
Tax adjustments in respect of previous year	**(109)**	(85)
Non-recognition of deferred tax on current year losses	**(105)**	(423)
Recognition of formerly non-recognised deferred tax assets on TLCF	**50**	821
R&D relief	**200**	44
Other	**(80)**	(66)
Income tax (expense)/income as reported in the consolidated income statement	**(1,022)**	35

The tax credit of £1,303k (2020: £1,639k) shown within "non-underlying items" on the face of the consolidated income statement, which forms part of the overall tax charge of £1,022k (2020: £35k credit) relates to the items in Note 4.

The tax rates used for the 2021 and 2020 reconciliation above are the corporate tax rates of 25% (Belgium), 15% (the Netherlands), 30.7% (Germany), 33% (France), 25% (Spain), 24% (Italy), 21% (Portugal) and 19% (the United Kingdom). These taxes are payable by corporate entities in the above-mentioned countries on taxable profits under tax law in that jurisdiction.

The March 2021 Budget resulted in an increase in the UK standard rate of corporation tax to 25% from 1 April 2023. Given the legislation was enacted during the year, deferred taxes have been adjusted accordingly, reflecting the increase of the tax rate in the future, resulting in a deferred tax charge of £273k.

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

Income tax payable

Tax payable relates to income taxes of £471k (2020: £553k).

6 INCOME AND EXPENSES CONTINUED

Deferred tax

(a) Recognised deferred tax assets and liabilities

	Assets		Liabilities		Total	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000
Goodwill	**(125)**	(150)	**(923)**	(785)	**(1,048)**	(935)
Intangible assets	**243**	275	**(3,435)**	(4,048)	**(3,192)**	(3,773)
Property, plant and equipment	**(186)**	(309)	**(195)**	(130)	**(381)**	(439)
Financial fixed assets	**1**	1	**–**	–	**1**	1
Inventory	**(11)**	(22)	**(40)**	(19)	**(51)**	(41)
Trade and other payables/receivables	**94**	120	**59**	46	**153**	166
Borrowings	**182**	272	**223**	132	**405**	404
Provisions	**3**	–	**–**	–	**3**	–
Accruals and deferred income	**13**	104	**40**	–	**53**	104
Tax losses carried forward	**1,749**	1,929	**–**	–	**1,749**	1,929
Total	**1,963**	2,220	**(4,271)**	(4,804)	**(2,308)**	(2,584)

(b) Movements during the year

Movement of deferred taxes during 2021:

	Balance at 1 January 2021 £'000	Recognised in income £'000	Foreign exchange adjustments £'000	**Balance at 31 December 2021 £'000**
Goodwill	(935)	(174)	61	**(1,048)**
Intangible assets	(3,773)	600	(19)	**(3,192)**
Property, plant and equipment	(439)	34	24	**(381)**
Financial fixed assets	1	–	–	**1**
Inventory	(41)	(13)	3	**(51)**
Trade and other payables/receivables	166	(11)	(2)	**153**
Accruals and deferred income	104	(44)	(7)	**53**
Borrowings	404	27	(26)	**405**
Provisions	–	–	3	**3**
Tax losses carried forward and other tax benefits	1,929	(70)	(110)	**1,749**
Net deferred tax	(2,584)	349	(73)	**(2,308)**

Movement of deferred taxes during 2020:

	Balance at 1 January 2020 £'000	Recognised in income £'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 carried forward and other tax benefits	903	968	58	1,929
Net deferred tax	(3,652)	1,020	48	(2,584)

Tax losses

The Group has unused tax losses, tax credits and notional interest deduction available in an amount of £7,435k for 2021 (2020: £7,532k).

Deferred tax assets have been recognised on available tax losses carried forward for some legal entities, resulting in amounts recognised of £1,749k (2020: £1,929k). 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.

After re-evaluation it was decided that Ecuphar NV will not recognise new deferred tax assets of £118k in 2021.

7 EARNINGS PER SHARE

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

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

Profit/(loss) before continuing operations

	For the year ended 31 December			
	2021 Underlying £'000	2020 Underlying £'000	**2021 Total £'000**	2020 Total £'000
Net profit/(loss) for the year	**7,224**	6,353	**(77)**	234
Net profit/loss attributable to ordinary equity holders of the parent adjusted for the effect of dilution	**7,224**	6,353	**(77)**	234

Average number of shares (basic and diluted)

	For the year ended 31 December			
Number of shares	**2021 Underlying**	2020 Underlying	**2021 Total**	2020 Total
Weighted average number of ordinary shares for basic earnings per share	**60,081,167**	60,057,161	**60,081,167**	60,057,161
Dilutive potential ordinary share options	**376,836**	42,581	**376,836**	42,581
Weighted average number of ordinary shares adjusted for effect of dilution	**60,458,003**	60,099,742	**60,458,003**	60,099,742

Basic earnings/(loss) per share

	For the year ended 31 December			
	2021 Underlying in pence	2020 Underlying in pence	**2021 Total in pence**	2020 Total in pence
From operations attributable to the ordinary equity holders of the Company	**12.0**	10.6	**(0.1)**	0.4
Total basic earnings per share attributable to the ordinary equity holders of the Company	**12.0**	10.6	**(0.1)**	0.4

Diluted earnings/(loss) per share

	For the year ended 31 December			
	2021 Underlying in pence	2020 Underlying in pence	**2021 Total in pence**	2020 Total in pence
From operations attributable to the ordinary equity holders of the Company	**12.0**	10.6	**(0.1)**	0.4
Total basic earnings per share attributable to the ordinary equity holders of the Company	**12.0**	10.6	**(0.1)**	0.4

8 GOODWILL

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

	For the year ended 31 December 2021 £'000	2020 £'000
CGU: Pharmaceuticals	**50,337**	50,987
Total	**50,337**	50,987

The changes in the carrying value of the goodwill can be presented as follows for the years 2021 and 2020:

	Total £'000
At 1 January 2020	50,454
Currency translation	534
At 31 December 2020	50,988
Currency translation	(651)
At 31 December 2021	**50,337**

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:

	2021	2020
Discount rate (pre-tax) %	**11.8**	11.2
Growth rate (in perpetuity) %	**1.9**	2.0

In the prior year the discount rate (pre-tax) was incorrectly disclosed as 10.2%. This has been restated to disclose the actual pre-tax rate used in 2020 of 11.2%.

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. Further, we have assessed the potential impact of climate change, with reference to our principal risks and the environmental disclosures made in the Sustainability Report on page 38 and consider that the impact on the valuation of goodwill is limited.

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

A 1% increase in discount rates would cause the value in use of the CGU to reduce by £19.9m but would not give rise to an impairment. A 1% reduction in perpetuity growth rates would cause the value in use of the CGU to reduce by £15.3m, 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 57% reduction in total annual cash flows would give rise to an impairment of £100k. An increase in discount rates to 20.1% or a reduction in perpetuity growth rates to (18.6%) 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 2021 and 2020:

	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/ cost					
At 1 January 2020	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)
Currency translation	246	789	916	74	2,025
At 31 December 2020	18,655	19,266	37,616	2,149	77,686
At 1 January 2021	**18,655**	**19,266**	**37,616**	**2,149**	**77,686**
Additions	**1,247**	**–**	**1,030**	**1,080**	**3,357**
Disposals	**(4,934)**	**(57)**	**(134)**	**(20)**	**(5,145)**
Transfers	**(2,195)**	**–**	**2,195**	**–**	**–**
Currency translation	**(327)**	**(961)**	**(1,140)**	**(119)**	**(2,547)**
At 31 December 2021	**12,446**	**18,248**	**39,567**	**3,090**	**73,351**

9 INTANGIBLE ASSETS CONTINUED

	In-process R&D £'000	Patents, distribution rights and licences £'000	Product portfolios and product development costs £'000	Capitalised software £'000	Total £'000
Amortisation					
At 1 January 2020	(4,813)	(9,969)	(17,769)	(930)	(33,481)
Amortisation	(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)
At 31 December 2020	(5,255)	(13,304)	(19,938)	(1,377)	(39,874)
At 1 January 2021	**(5,255)**	**(13,304)**	**(19,938)**	**(1,377)**	**(39,874)**
Amortisation	**(1,387)**	**(1,897)**	**(3,303)**	**(630)**	**(7,217)**
Disposals	**4,211**	**57**	**46**	**55**	**4,369**
Impairments	**(2,671)**	**–**	**(77)**	**(13)**	**(2,761)**
Currency translation	**147**	**770**	**855**	**79**	**1,851**
At 31 December 2021	**(4,955)**	**(14,374)**	**(22,417)**	**(1,886)**	**(43,632)**
Net carrying value					
At 31 December 2021	**7,491**	**3,874**	**17,150**	**1,204**	**29,719**
At 31 December 2020	13,400	5,962	17,678	772	37,812

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 capitalised software includes an IT driven by accelerated CRM software investment and website and platform development relating to Identicare Ltd.

The total amortisation charge for 2021 is £7,217k (2020: £8,149k) 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 £8,292k (2020: £5,900k) relating to acquisition related intangibles.

Further, an impairment charge of £2,761k (2020: £19k) was recorded during the financial year.

In 2021, the Group has invested in intangibles for an amount of £3,357k, which is £699k higher than the additions reported in the cash flow (£2,658k). This is the result of the licence payable to STEM, which is only taken into capex for the actual cash out part.

10 PROPERTY, PLANT AND EQUIPMENT

The changes in the carrying value of the property, plant and equipment can be presented as follows for 2021 and 2020:

	Equipment £'000	Office furniture and equipment £'000	Warehouse and office fitting £'000	Leasehold improvements £'000	Fixed assets under construction £'000	Total £'000
Acquisition value/ cost						
At 1 January 2020	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
Additions	**1**	**51**	**–**	**6**	**499**	**557**
Disposals	**(141)**	**(63)**	**(15)**	**–**	**(43)**	**(262)**
Currency Translation	**(17)**	**(79)**	**–**	**(21)**	**(13)**	**(130)**
At 31 December 2021	**254**	**1,553**	**169**	**302**	**494**	**2,772**
Depreciation						
At 1 January 2020	(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)
Depreciation charge for the year	**(19)**	**(75)**	**(19)**	**(6)**	**–**	**(119)**
Disposals	**130**	**62**	**13**	**–**	**–**	**205**
Currency translation	**16**	**72**	**–**	**22**	**–**	**110**
At 31 December 2021	**(249)**	**(1,466)**	**(149)**	**(282)**	**–**	**(2,146)**
Net book value						
At 31 December 2021	**5**	**87**	**20**	**20**	**494**	**626**
At 31 December 2020	35	119	41	19	51	265

The investment in property, plant and equipment in 2021 amounted to £557k (2020: £177k) 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 £396k in 2021 (2020: £ nil). No impairment of property, plant and equipment was recorded in 2020.

Borrowing costs

No borrowing costs were capitalised during the year ended 31 December 2021 or 31 December 2020.

11 INVESTMENTS IN JOINT VENTURES

On 28 September 2020 the Group announced that it has entered into an agreement with Canada-based biotech company Kane Biotech Inc. under which the parties formed STEM Animal Health Inc. ("STEM"), a company dedicated to treating biofilm-related ailments in animals. The Group acquired, via its 100% subsidiary Ecuphar NV, 33.34% in STEM for a cash consideration of CA$3m, of which CA$1m was paid in 2020, CA$0.5m during the financial year and CA$1.5m still payable over 34 months. The Group has an option, for a period of five years, to acquire an additional one-sixth stake in STEM for CA$4 million. Based on the existing voting rights (33.34%) and other contractual arrangements, the Group does not have power over the investee. Further disclosure is provided in Note 3 Significant accounting judgements, estimates and assumptions. Accordingly, the investment in STEM is accounted for through the equity method in the consolidated financial statements.

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

Both the remaining equity investment in STEM and the licensing fee are expected to be paid from existing cash resources.

During the financial year the Group made its first licence payment of CA$0.5m. The following payment is due in 2023, therefore only a long-term payable of CA$1.3m (£766k) is remaining. Further, for the capital contribution, the outstanding short-term liability is £277k (2020: £272k), shown in the balance sheet as other current liability. The outstanding long-term liability is £502k (2020: £717k), shown in the balance sheet as other non-current liability. The Group expects the licensing agreement to be earnings enhancing in 2022.

Name of entity	Place of business/ country of incorporation	% of ownership interest 2021 %	Nature of relationship 2020 %	Measurement method	Carrying amount	Carrying amount 2021 £'000	Carrying amount 2020 £'000
STEM Animal Health Inc.	Canada	**33.34%**	33.34%	Joint venture	Equity method	**1,290**	1457

The tables below provide summarised financial information for the joint venture in STEM Animal Health Inc. which is material to the Group. The information disclosed first reflects the amounts presented in the financial statements of the relevant joint venture followed by Animalcare's share of those amounts.

	For the year ended 31 December 2021 £'000	For the year ended 31 December 2020 £'000
Non-current assets	**547**	760
Current assets	**945**	911
Total assets	**1,492**	1,671
Non-current liabilities	**0**	0
Current liabilities	**525**	297
Total liabilities	**525**	297
Net assets	**967**	1,374
The table below shows the Animalcare group share at 33%:		
Net assets	**322**	458
Goodwill	**561**	552
Fair value identified intangibles	**554**	608
Deferred tax liability	**(147)**	(161)
Investment value in joint venture	**1,290**	1,457

Summarised statement of comprehensive income:

	For the year ended 31 December 2021 £'000	For the year ended 31 December 2020 £'000
Sales	**856**	134
Operating expenses	**(1,338)**	(378)
Financial result, net	**55**	(1)
Net (loss)/profit for the year	**(427)**	(245)
Group share in net (loss)/profit for the year	**(142)**	(82)
Depreciation on fair value adjustments on intangible fixed assets (net of deferred tax)	**(46)**	(11)
Total Group share in net (loss)/profit for the year	**(188)**	(93)
Other comprehensive income	**21**	(18)
Group share in total comprehensive income	**(167)**	(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 at 1 January	**1,457**	–
Acquisition in joint venture	**–**	1,568
Group share of net (loss)/profit for the year	**(188)**	(93)
Foreign currency translation differences	**21**	(18)
As at 31 December	**1,290**	1,457

12 INVENTORIES

Inventories include the following:

	For the year ended 31 December	
	2021 £'000	2020 £'000
Raw materials	**1,249**	1,400
Goods purchased for resale	**9,079**	11,397
Total inventories (at cost or net realisable value)	**10,328**	12,797

The amount of inventory recognised as an expense during 2021 amounts to £33,016k (2020: £33,286k). Inventory write-downs during 2021 amounted to £499k (2020: £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	
	2021 £'000	2020 £'000
Trade receivables	**7,212**	10,226
Expected credit loss	**(77)**	(84)
Total	**7,135**	10,142

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 2021, trade receivables of an initial value of £77k (2020: £84k) were impaired and fully provided for. The table below shows the changes in the allowance of receivables.

13 AMOUNTS RECEIVABLE AND OTHER NON-CURRENT ASSETS CONTINUED

	£'000
At 1 January 2020	(80)
Additional impairments	(37)
Reversal impairment	37
Exchange difference	(4)
At 31 December 2020	(84)
Additional impairments	(2)
Reversal impairment	3
Exchange difference	6
At 31 December 2021	**(77)**

Other current assets include the following:

	For the year ended 31 December	
	2021 £'000	2020 £'000
Other receivables	**868**	1,228
Deferred charges	**332**	361
Total	**1,200**	1,589

Other current assets amount to £1,200k (2020: £1,589k) at the end of the reporting year and mainly include reclaimable taxes and a receivable resulting from the sale of the Wholesaling 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. Following various discussions and correspondence, during which the parties were unable to reach any agreement, Vetdis issued formal court papers on 29 May 2020. A full court hearing to consider the case took place in the Commercial Court in Bruges on 2 March 2021. The court did not decide on the merits of the claim, instead it appointed an expert auditor to examine the documents and advise the court on the claim. The court however ordered Vetdis to pay the current account debt plus interest at 8%, and on 4 May 2021, Vetdis made a payment of €432,762. The process involving the expert auditor is ongoing. Other than the €126,430, which may be valid, no further provision in respect of this matter has been included in the financial statements as the Directors consider this to be a contingent liability.

Deferred charges mainly include charges to be carried forward totaling £332K (2020: £361K prepayments).

	For the year ended 31 December	
	2021 £'000	2020 £'000
Other non-current assets	**24**	48

14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following:

	For the year ended 31 December 2021 £'000	2020 £'000
Cash at bank	**5,633**	5,265
Total	**5,633**	5,265

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 2021 and 2020.

15 TRADE PAYABLES

	For the year ended 31 December 2021 £'000	2020 £'000
Trade payables	**10,021**	11,348
Total	**10,021**	11,348

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 2021 £'000	2020 £'000
Revolving credit facilities	Euribor +1.50%	March 25	**5,462**	12,227
Rollover investment facility	Euribor +1.50%	March 25	**–**	797
Acquisition loan	Euribor +1.75%	March 25	**3,781**	4,045
Lease liabilities	See Note 22		**1,719**	1,812
Total loans and borrowings			**10,962**	18,881
Of which				
Non-current			**10,239**	17,293
Current			**723**	1,588

Revolving credit facilities and rollover investment facilities

The Group's financing arrangements are split equally among four syndicate banks. The current agreements consist of:

- €41.5m revolving credit facilities
- €10m available acquisition financing

The loans have a variable, Euribor-based interest rate, increased with a margin of 1.5% or 1.75%. The revolving credit facilities and the acquisition financing have a bullet maturity in March 2025.

17 PROVISIONS

Provisions consist of the following:

	For the year ended 31 December 2021 £'000	2020 £'000
Service warranties	**126**	34
Contingent liability	**208**	–
Other	**74**	62
	408	96

Provision is made for estimated indemnities in respect of products sold which are still under warranty. Contingent liability relates to an onerous contract with a customer.

	Service warranties £'000	Contingent liability £'000	Other £'000	Total £'000
Carrying amount at start of the year	**34**	**–**	**62**	**96**
Additional provision	81	208	53	342
Charged/(credited) to P&L	–	–	–	–
- additional provision	12	–	–	12
- unused amounts reversed	-1	–	-41	-42
- unwinding of discount	–	–	–	–
Amounts used during the year	–	–	–	–
Carrying amount at end of the year	**126**	**208**	**74**	**408**

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 2021 and 2020. 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 (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. Following various discussions and correspondence, during which the parties were unable to reach any agreement, Vetdis issued formal court papers on 29 May 2020. A full court hearing to consider the case took place in the Commercial Court in Bruges on 2 March 2021. The court did not decide on the merits of the claim, instead it appointed an expert auditor to examine the documents and advise the court on the claim. The court however ordered Vetdis to pay the current account debt plus interest at 8%, and on 4 May 2021, Vetdis made a payment of €432,762. The process involving the expert auditor is ongoing. Other than the €126,430, which may be valid, no further provision in respect of this matter has been included in the financial statements.

18 OTHER NON-CURRENT LIABILITIES

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

	For the year ended 31 December 2021 £'000	2020 £'000
Non-current liabilities	**1,157**	717
Total	**1,157**	717

19 ACCRUED CHARGES AND CONTRACT LIABILITIES

Accrued charges and contract liabilities consists of the following:

	For the year ended 31 December	
	2021 £'000	2020 £'000
Accrued charges	**923**	2,450
Contract liabilities – due within one year	**168**	234
Other	**(8)**	2
Total due within one year	**1,083**	2,686
Contract liabilities – due after one year	**675**	556

Accrued charges of £923k (2020: £2,450k) mainly include Ecuphar Veterinaria (£451k), Ecuphar NV (£138k) and Belphar (£266k) and are mostly related to payroll and accrued bank interest costs.

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

Throughout 2021, Identicare Ltd also operated both monthly and annual subscription-based services to pet owners, with income recognised accordingly over the period of the subscription.

Movements in the Group's contract liabilities:

	For the year ended 31 December	
	2021 £'000	2020 £'000
Balance at the beginning of the year	**790**	772
Contract liabilities to following years	**170**	201
Release of contract liabilities from previous years	**(117)**	(183)
Balance at the end of the year	**843**	790

The contract liabilities fall due as follows:

	For the year ended 31 December	
	2021 £'000	2020 £'000
Within one year	**168**	234
After one year	**675**	556
Balance at the end of the year	**843**	790

20 OTHER CURRENT LIABILITIES

Other current liabilities include the following:

	For the year ended 31 December	
	2021 £'000	2020 £'000
Payroll-related liabilities	**1,356**	1,288
Indirect taxes payable	**547**	1,658
Other current liabilities	**253**	256
Total	**2,156**	3,202

The Group acquired a one-third stake in STEM Animal Health Inc. on 28 September 2020, for a cash consideration of CA$3m, payable over 48 months, of which CA$1.0m was paid in 2020 and CA$0.5m (£0.3m) was paid during the current financial year. As at 31 December 2021 other current liabilities relate to CA$0.5m (£0.3m) which becomes payable during 2022.

21 FAIR VALUE

Financial assets

The carrying value and fair value of the financial assets for 31 December 2021 and 2020 are presented as follows:

	Carrying value		Fair value	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Financial assets measured at amortised cost				
Trade and other receivables (current)	**7,135**	10,142	**7,135**	10,142
Trade and other receivables (non-current)	**24**	48	**24**	48
Other financial assets (non-current)	**90**	63	**90**	63
Other current assets	**1,199**	1,589	**1,199**	1,589
Cash and cash equivalents	**5,633**	5,265	**5,633**	5,265
Total financial assets measured at amortised cost	**14,081**	17,107	**14,081**	17,107

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 2021 and 2020.

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 2021 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 2021 and 2020 are presented as follows:

	Carrying value		Fair value	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Financial liabilities measured at amortised cost				
Borrowings	**10,401**	17,787	**10,401**	17,787
Lease liabilities	**1,719**	1,812	**1,719**	1,812
Trade payables	**10,021**	11,348	**10,021**	11,348
Other liabilities	**4,385**	6,996	**4,385**	6,996
Total financial liabilities measured at amortised cost	**26,526**	37,943	**26,526**	37,943
Total non-current	**11,396**	18,010	**11,396**	18,010
Total current	**15,130**	19,933	**15,130**	19,933

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	**2021**	2020
Allotted, called up and fully paid Ordinary Shares of 20p each	**60,092,161**	60,057,161

	For the year ended 31 December	
	2021 £'000	2020 £'000
Allotted, called up and fully paid Ordinary Shares of 20p each	**12,019**	12,012

The following share transactions have taken place during the year ended 31 December 2021:

	For the year ended 31 December	
	Number of shares	£'000
At 1 January 2021	60,057,161	12,012
Exercise of share options	35,000	7
At 31 December 2021	**60,092,161**	**12,019**

22 EQUITY CONTINUED

Dividends

	For the year ended 31 December 2021 £'000	2020 £'000
Ordinary interim dividend paid for the year ended 31 December 2020 of 2.0p per share	–	1,201
Ordinary final dividend for the year ended 31 December 2020 of 2.0p per share	1,201	–
Ordinary interim dividend paid for the period ended 31 December 2021 of 2.0p per share	1,202	–
	2,403	1,201

23 IFRS 16 LEASES

The balance sheet shows the following amounts relating to leases as at 31 December 2021:

	31 December 2021 £'000	1 January 2021 £'000
Buildings	579	831
Vehicles	1,079	957
Other	–	1
Total right-of-use assets	1,658	1,789
Current lease liabilities	723	951
Non-current lease liabilities	996	861
Total lease liabilities	1,719	1,812

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/ cost				
At 1 January 2020	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
Other	–	–	–	–
At 31 December 2020	1,570	2,029	84	3,683
Additions	**336**	**881**	**–**	**1,217**
Disposals and contract modifications	**(286)**	**(425)**	**(63)**	**(774)**
Transfers	**3**	**–**	**(3)**	**–**
Currency Translation	**(84)**	**(134)**	**(2)**	**(220)**
Other	**(12)**	**(61)**	**–**	**(73)**
At 31 December 2021	**1,527**	**2,290**	**16**	**3,833**
Depreciation				
At 1 January 2020	**(378)**	**(598)**	**(46)**	**(1,022)**
Depreciation charge for the year	(433)	(619)	(31)	(1,083)
Disposals	22	181	(3)	200
Transfers	71	–	–	71
Currency translation	(21)	(35)	(3)	(59)
At 31 December 2020	(739)	(1,071)	(83)	(1,893)
Depreciation charge for the year	**(428)**	**(634)**	**(4)**	**(1,066)**
Disposals and contract modifications	**182**	**424**	**63**	**669**
Transfers	**(6)**	**–**	**6**	**–**
Currency translation	**43**	**70**	**2**	**115**
At 31 December 2021	**(948)**	**(1,211)**	**(16)**	**(2,175)**
Net book value				
At 31 December 2021	**579**	**1,079**	**–**	**1,658**

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

	Lease liability £'000
At 1 January 2021	1,812
Additions	1,217
Disposals	(118)
Interest expense	53
Payments	(1,077)
Modifications	(61)
CTA	(107)
At 31 December 2021	**1,719**

23 IFRS 16 LEASES CONTINUED

The following amounts are recognised in the income statement:

	For the year ended 31 December 2021 £'000
Depreciation expense of right-of-use assets	(1,066)
Interest expense on lease liabilities	(53)
Expense relating to short-term leases and low-value assets	(159)
Total amount recognised in the income statement	**(1,278)**

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 2021 the Group's maximum exposure to credit risk is £7,135k, which is the amount of the trade receivables in the consolidated financial statements (2020: £10,142k).

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 aging 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 2021	**7,135**	**6,725**	**429**	**23**	**13**	**(57)**	**2**	**0%**
31 December 2020	10,142	10,151	(92)	56	5	(50)	72	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 2021, the Group had the following sources of liquidity available:

- Cash and cash equivalents: £5,633k
- Undrawn credit facilities with several banks: £29,409k
- Undrawn acquisition financing: £4,621k

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 2021					
Borrowings	**–**	**(9,243)**	**–**	**–**	**(9,243)**
Lease liabilities	**(723)**	**(1,451)**	**(301)**	**(490)**	**(2,965)**
Trade payables	**(10,021)**	**–**	**–**	**–**	**(10,021)**
Other current liabilities	**(2,156)**	**–**	**–**	**–**	**(2,156)**
Total	**(12,900)**	**(10,694)**	**(301)**	**(490)**	**(24,385)**

	< 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)

The amounts disclosed in the table above are the contractual undiscounted cash flows. The lease liabilities are translated at closing rate. Balances due within one year equal their carrying balances as the impact of discounting is not significant.

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

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

Foreign exchange risk

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

	For the year ended 31 December			
	Assets 2021 £'000	Assets 2020 £'000	**Liabilities 2021 £'000**	Liabilities 2020 £'000
EUR/GBP	**18,911**	13,166	**27,589**	17,131
GBP/EUR	**16,322**	8,920	**18,361**	13,602
EUR/USD	**–**	–	**101**	435
GBP/USD	**–**	–	**117**	61
EUR/DKK	**–**	–	**–**	2
EUR/CAD	**–**	–	**1,545**	1,457
EUR/SEK	**6**	7	**–**	–

The cumulative effect of the foreign currency translation effects is reported under other comprehensive income in the statement of financial position and amounts to £2,311k (2020: £3,058k).

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% 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 2021. A positive number indicates that an increase in profit would arise from a 10% change in value of sterling or EUR against these currencies, a negative number indicates that a decrease would arise.

24 RISKS CONTINUED

	Strengthening £'000	Weakening £'000
EUR/GBP	868	(868)
GBP/EUR	204	(204)
EUR/USD	10	(10)
GBP/USD	12	(12)
EUR/CAD	154	(154)

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 £108k lower/higher in 2021 and £175k lower/higher in 2020.

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 £78,799k as at 31 December 2021 (2020: £81,592k).

The Group consistently reviews its capital structure and makes adjustments in light of changing economic conditions and performances of the Group. The Group made no changes to its capital management objectives, policies or processes during the years ended 31 December 2021 and 2020.

25 REMUNERATION PAID TO THE COMPANY'S AUDITORS

	For the year ended 31 December	
	2021 £'000	2020 £'000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	**110**	95
The audit of the Company's subsidiaries pursuant to legislation	**156**	123
Total audit fees	**266**	218
Other services	**2**	2
Total non-audit services	**2**	2
Total auditors' remuneration	**268**	220

The non-audit services relate to assurance procedures in relation to an annual declaration required by a subsidiary company.

26 SHARE-BASED PAYMENTS

The Group operates a number of equity-settled share-based payment programmes that allow employees to acquire shares in the Group. The Group also operates Long Term Incentive Plans for certain members of the Senior Executive Team and other members of the Leadership Team. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of such equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions (with a corresponding movement in equity).

The fair value of the options issued under the Long Term Incentive Plan have been determined using both the Black–Scholes and Monte Carlo simulation 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.

Details of the movement in this share option scheme during the year is as follows:

	EMI	
	Options	**Price £**
Outstanding at 1 January 2021	52,500	2.17
Exercised during the period	(35,000)	2.18
Lapsed during the year	(17,500)	2.15
Open at 31 December 2021	**–**	**–**

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

	EMI Scheme
Weighted average share price	216p
Weighted average exercise price	216p
Expected volatility	41.00%
Expected life	3.0 years
Risk-free rate	**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 behavioural considerations.

Long Term Incentive Plan ("LTIP")

The Group has made a number of awards pursuant to the Long Term Incentive Plan as follows:

2021 LTIP Options

On 5 November 2021, nil-cost options over a total of 264,981 ordinary shares with a nominal value of 20.0 pence per share were awarded to certain members of the Senior Executive Team and Group Leadership Team. 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 2024:

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

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

50% of the option award will be subject to the EPS performance condition and the remaining 50% will be subject to the TSR performance condition. Accordingly, if one of the performance conditions is met but the other is not, the Option award will vest in part.

26 SHARE-BASED PAYMENTS CONTINUED

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	£3.62
Weighted average exercise price	£Nil
Expected volatility	32.0%
Expected life	3.2 years
Expected dividend yield	1.10%
Fair value per option – EPS tranche	£3.50
Fair value per option – TSR tranche	£2.56
Risk-free rate	0.39%

2020 LTIP Options

On 17 November 2020, nil-cost options over a total of 377,120 ordinary shares with a nominal value of 20.0 pence per share were awarded to certain members of the Senior Executive Team and Group Leadership Team. During the year under review, 16,555 of the options lapsed due to cessation of employment, leaving 360,565 options 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 2023:

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%

26 SHARE-BASED PAYMENTS CONTINUED

2019 LTIP Options

On 6 June 2019, nil-cost options over a total of 425,279 ordinary shares with a nominal value of 20.0 pence per share were awarded to certain members of the Senior Executive Team and Group Leadership Team. On 29 June 2020, a further grant of 14,076 ordinary shares was made to a member of the Group Leadership Team pursuant to the same performance and vesting criteria as the 2019 LTIP options. During 2020, 56,488 of the options lapsed due to cessation of employment. During 2021, a further 18,589 options lapsed, leaving 364,278 options outstanding.

The awards will normally vest three years after the date of grant subject to the performance criteria being met over the three-year financial period ended 31 December 2021. The performance conditions associated with the 2019 LTIP Options are the same as those for the 2020 LTIP Options noted above.

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

Inputs into the option pricing models were as follows:

Weighted average share price	£1.60
Weighted average exercise price	£Nil
Expected volatility	30.5%
Expected life	3.0 years
Expected dividend yield	2.80%
Fair value per option – EPS tranche	£1.47
Fair value per option – TSR tranche	£0.98
Risk-free rate	0.50%

The Group recognised a total charge in respect of share-based payments of £249k (2020: £162k).

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 hereon in this section. The Group carries an investment in a joint venture (Stem Animal Health Inc.). The Group's investment in its joint venture is accounted for using the equity method.

Remuneration of the Directors, who are the key management personnel of the Group, is included in the Directors' Remuneration Report on page 62.

28 OVERVIEW OF CONSOLIDATED ENTITIES

Name	Country of incorporation	Registered address	% equity interest 2021	% equity interest 2020	Consolidation method
Ecuphar NV	Belgium	Legeweg 157i, 8020 Oostkamp	**100%**	100%	Fully consolidated
Orthopaedics.be NV	Belgium	Legeweg 157i, 8020 Oostkamp	**100%**	100%	Fully consolidated
Ecuphar BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	**100%**	100%	Fully consolidated
Ecuphar Veterinary Products BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	**100%**	100%	Fully consolidated
Ornis SA	France	Rue de Roubaix 33, 59200 Tourcoing	**100%**	100%	Fully consolidated
Ecuphar GmbH	Germany	Brandteichstraße 20, 17489 Greifswald	**100%**	100%	Fully consolidated
Euracon Pharma Consulting und Trading GmbH	Germany	Max-Planck Str. 11, 85716 Unterschleißheim	**100%**	100%	Fully consolidated
Ecuphar Veterinaria SA	Spain	C/ Cerdanya, 10-12, pl 6. 08173 Sant Cugat del Vallés Barcelona	**100%**	100%	Fully consolidated
Ecuphar Italia	Italy	Viale Francesco Restelli, 3/7, piano 1, 20124 Milano	**100%**	100%	Fully consolidated
Belphar	Portugal	R. Carlos Alberto da Mota Pinto, Nº 17- 3ºA, 1070-313 Lisabon	**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
Animalcare Ltd	United Kingdom	Unit 7, 10 Great North Way, York Business Park, Nether Poppleton, York, YO26 6RB	**100%**	100%	Fully consolidated
Identicare Ltd.	United Kingdom	Unit 7, 10 Great North Way, York Business Park, Nether Poppleton, York, YO26 6RB	**100%**	0%	Fully consolidated
STEM Animal Health Inc.	Canada	Innovation Drive Winnipeg 162-196, Manitoba, R3T 2N2	**33%**	33%	Equity method

29 EVENTS AFTER BALANCE SHEET DATE

On 1 January 2022, we entered into a partnership with an entrepreneur to develop and drive growth within Identicare Ltd, the Group's pet microchipping and consumer-focused services business. In connection with this partnership, a growth share plan has been put in place based on certain equity value-based performance criteria.

On 24 March 2022, the Group announced that it has entered into two early-stage agreements with Netherlands-based Orthros Medical, a company focused on the research and early development of VHH antibodies, also known as small single chain antibody fragments. Under the terms of the deal, Animalcare will make upfront payments to Orthros Medical totalling €500,000 and will fund some early research activities as part of the collaboration. As the two licensed preclinical candidates progress, Orthros Medical may receive development, regulatory and commercial milestone payments up to a total value of €11 million as well as single digit royalties on net sales of the products. These payments are expected to be paid out of the Group's operating cash flow.

Company Statement of Financial Position

AS AT 31 DECEMBER 2021

	Notes	For the year ended 31 December 2021 £'000	As restated 2020* £'000	1 January As restated 2020* £'000
Non-current assets				
Investments in subsidiary companies	6	**147,743**	147,743	147,743
Deferred tax asset	10	**44**	5	5
		147,787	147,748	147,748
Current assets				
Trade and other receivables	7	**8,502**	4,110	6,347
Cash and cash equivalents	8	**6**	60	553
		8,508	4,170	6,900
Total assets		**156,295**	151,918	154,648
Current liabilities				
Trade and other payables	9	**(2,869)**	(2,974)	(3,957)
		(2,869)	(2,974)	(3,957)
Net current assets		**5,639**	1,196	2,943
Total liabilities		**(2,869)**	(2,974)	(3,957)
Net assets		**153,426**	148,944	150,691
Capital and reserves				
Called-up share capital	11	**12,019**	12,012	12,012
Share premium account		**132,798**	132,729	132,729
Retained earnings		**8,609**	4,203	5,950
Equity attributable to equity holders of the parent		**153,426**	148,944	150,691

* Restated as detailed in Note 14

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present a separate Profit and Loss account in these separate financial statements. The profit dealt with in the financial statements of the Company was £6,574k (2020: £694k loss).

The financial statements of Animalcare Group plc, registered number 1058025, were approved by the Board of Directors and authorised for issue on 29 March 2022. 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 2021

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2020		12,012	132,729	5,950	150,691
Total comprehensive loss for the period		–	–	(694)	(694)
Transactions with owners of the Company, recognised in equity:					
Dividends paid		–	–	(1,201)	(1,201)
Share-based payments		–	–	148	148
Balance at 1 January 2021		12,012	132,729	4,203	148,944
Total comprehensive profit for the period	3	–	–	6,574	6,574
Transactions with owners of the Company, recognised in equity:					
Dividends paid	5	–	–	(2,403)	(2,403)
Share-based payments	12	–	–	235	235
Exercise of share options	11	7	69	–	76
Balance at 31 December 2021		**12,019**	**132,798**	**8,609**	**153,426**

Company Cash Flow Statement

YEAR ENDED 31 DECEMBER 2021

	Note	31 December 2021 £'000	As restated 31 December 2020* £'000
Comprehensive income/ (loss) for the year before tax		**6,080**	(710)
Adjustments for:			
Finance (income)/cost		**696**	425
Proceeds from dividends of subsidiaries		**(8,091)**	
Share-based payment expense	12	**235**	148
Operating cash flows before movements in working capital		**(1,080)**	(138)
(Increase)/decrease in receivables	7	**3,550**	(2,501)
Decrease/(increase) in payables	9	**(135)**	3,785
New cash flow from operating activities		**2,335**	1,146
Financing:			
Receipts from issue of share capital	11	**76**	
Interest (paid)/received		**46**	(425)
Equity dividends paid	5	**(2,403)**	(1,201)
Net cash used in financing activities		**(2,281)**	(1,626)
Net decrease in cash and cash equivalents		**(54)**	(480)
Cash and cash equivalents at start of year		**60**	553
Cash and cash equivalents at end of year		**6**	60
Comprising:			
Cash and cash equivalents	8	**6**	60

* Restated as detailed in Note 14

Notes to the Company Financial Statements

YEAR ENDED 31 DECEMBER 2021

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 2021 to 31 December 2021.

The financial statements have been prepared and approved by the Directors under the historical cost convention, except for the revaluation of certain financial instruments, in accordance with UK-adopted international accounting standards ("IFRS") and in conformity with the requirements of the Companies Act 2006 as applicable to companies reporting under IFRS. They have also been prepared in accordance with the requirements of the AIM Rules.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present a separate Profit and Loss account in these separate financial statements. The profit dealt with in the financial statements of the Company was £6,574 (2020: £694k loss).

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

Going concern

The Directors have prepared forecasts including cash flow forecasts for a period of at least 12 months from the date of signing of these financial statements (the going concern assessment period). These forecasts indicate that the Company will have sufficient funds to meet its obligations as they fall due, taking into account the potential impact of "severe but plausible" downside scenarios to factor in a range of downside revenue estimates, including further unexpected COVID disruptions, and higher than expected inflation across our cost base, with corresponding mitigating actions.

The output from these scenarios shows the Company has adequate levels of liquidity from its committed facilities and complies with all its banking covenants throughout the going concern assessment period. Accordingly, the Directors continue to adopt the going concern basis of preparation.

The Group's financing arrangements consist of a committed revolving credit facility of €41.5m and a €10m acquisition line, which cannot be utilised to fund our operations.

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

Net debt to underlying EBITDA ratio of 3.5 times; underlying EBITDA to interest ratio of minimum 4 times; and solvency (total assets less goodwill/ total equity less goodwill) greater than 25%. As at 31 December 2021 and throughout the financial year, all covenant requirements were met with significant headroom across all three measures.

Employee benefits – pensions

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

Investments in subsidiaries

Investments in Group companies are stated at cost less provisions for impairment losses.

Impairment indicator assessments are undertaken annually at the financial year end.

Whenever events or changes in circumstances indicate that the carrying amount of investments may not be recoverable, they are subject to impairment tests.

Where the carrying value of investments exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the investments are written down accordingly.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to future cash flows projected after the fifth year.

Impairment charges are included in profit or loss.

Dividends

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

Share-based payments

The Company operates a number of equity-settled share-based payment programmes that allow employees to acquire shares of the Company. 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 has 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.

Where the Company enters into financial guarantee contracts to guarantee the indebtness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Company measures loss allowances at an amount equal to lifetime ECL, except for bank balances for which credit risk (i.e. risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

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 2021

Standards and interpretations applicable for the annual period beginning on or after 1 January 2021:

- 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 January 1, 2021)
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9, effective January 1, 2021
- Amendment to IFRS 16 Leases COVID-19-Related Rent Concessions , effective June 1, 2020, with early application permitted

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

Significant accounting judgements, estimates and assumptions

Carrying value of investments

Investments in subsidiaries are reviewed annually for impairment when indicators for impairment are identified. Determining whether the Company's investments in subsidiaries have been impaired requires estimations of the investments' values in use or consideration of the net asset value of the entity. The value in use calculations require the entity to estimate the future cash flows, expected to arise from the investments and suitable discount rates in order to calculate present values. Such calculations are prepared in conjunction with the impairment test in relation to goodwill, details of which are provided in Note 8 of the consolidated financial statements.

2 NON-RECURRING ITEMS

	2021 £'000	2020 £'000
Restructuring and integration costs	**–**	180
Other exceptional costs	**109**	–
Total exceptional and other items	**109**	180

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 incurred during 2020 of £180,000 mainly relate to professional fees in respect of Group-wide employment, legal and tax structuring advice.

3 TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR

	2021 £'000	2020 £'000
Total comprehensive income/(loss) for the year has been arrived at after charging/(crediting):		
Finance costs	**696**	425
Dividend income received from subsidiary – Ecuphar NV	**8,091**	–

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

3 TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR CONTINUED

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

	2021 £'000	2020 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	110	95
Total audit fees	**110**	95

4 DIRECTORS' REMUNERATION AND INTERESTS

Emoluments

There were no employees of the Company. The various elements of remuneration received by each Director were as follows:

Year ended 31 December 2021	Salary £'000	Bonus £'000	Company pension contributions £'000	Benefits £'000	Compensation for loss of office £'000	Total £'000
J Boone*	70	–	–	–	–	70
C Brewster	209	84	23	12	–	328
C Cardon[1]	18	–	–	–	–	18
M Coucke*	40	–	–	–	–	40
N Downshire*	40	–	–	–	–	40
E Torr*	45	–	–	–	–	45
J Winter	306	153	–	14	–	473
Total	**728**	**237**	**23**	**26**	**–**	**1,014**

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[1]	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

* Indicates Non-Executive Directors

[1] Resigned 8 July 2021

The approved bonus awards to C Brewster and J Winter in respect of the 2021 financial year were accrued as at 31 December 2021 and will be settled post year end.

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

Share options

On 5 November 2021, nil-cost options over a total of 150,650 ordinary shares with a nominal value of 20.0 pence 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	106,844	450,175
Chris Brewster	43,806	187,290

5 DIVIDENDS

	2021 £'000	2020 £'000
Ordinary interim dividend for the year ended 31 December 2020 of 2.0p per share	–	1,201
Ordinary final dividend paid for the year ended 31 December 2020 of 2.0p per share	1,201	–
Ordinary interim dividend paid for the year ended 31 December 2021 of 2.0p per share	1,202	–
	2,403	1,201

The proposed final dividend of 2.4 pence per share is subject to approval of shareholders at the Annual General Meeting and has not been included as a liability as at 31 December 2021, in accordance with IAS 10 Events After the Balance Sheet Date

6 INVESTMENTS IN SUBSIDIARIES

Subsidiary undertakings

Cost	2021 £'000
At 1 January 2021 and 31 December 2021	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
Identicare Ltd	United Kingdom	Unit 7, 10 Great North Way, York Business Park, Nether Poppleton, York YO26 6RB	Microchipping and other associated services	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	Max-Planck Str. 11, 85716 Unterschleißheim	Non-trading	Ordinary
Ecuphar Veterinaria SL	Spain	Avenida Río de Janeiro, 60 – 66, planta 13, 08016 Barcelona	Developer and marketer of veterinary pharmaceuticals	Ordinary
Ecuphar Italia SRL	Italy	Viale Francesco Restelli, 3/7, piano 1, 20124 Milano	Marketer of veterinary pharmaceuticals	Ordinary
Belphar IDA	Portugal	R. Carlos Alberto da Mota Pinto, Nº 17- 3ºA, 1070-313 Lisbon	Marketer of veterinary pharmaceuticals	Ordinary

7 OTHER FINANCIAL ASSETS

Trade and other receivables

	2021 £'000	As restated 2020* £'000
Corporation tax – Group relief	**485**	29
Other receivables	**–**	30
Prepayments and accrued income	**65**	57
Amounts due from subsidiaries	**7,953**	4,024
	8,502	4,140

* Restatement as described in company statement of financial position

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

Amounts due by Group undertakings at 31 December 2021 are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

8 CASH AND CASH EQUIVALENTS

	2021 £'000	2020 £'000
Cash and cash equivalents	**6**	60

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

9 OTHER FINANCIAL LIABILITIES

	2021 £'000	As restated 2020* £'000
Trade payables	**342**	284
Other taxes and social security costs	**52**	64
Other creditors	**7**	18
Amounts payable to subsidiaries	**2,106**	2,372
Accruals	**362**	266
	2,869	3,004

* Restatement as described in company statement of financial position

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

10 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 31 December 2020	(1)	–	(2)	(5)
Credit to income	–	–	(41)	(41)
At 31 December 2021	**(1)**	**–**	**(43)**	**(44)**

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would move to 25% (rather than remain at 19%, as previously enacted). Deferred taxes as at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

11 SHARE CAPITAL

	No.	£'000
Allotted, called up and fully paid at 31 December 2020	60,057,161	12,012
Exercise of share options	35,000	7
Allotted, called up and fully paid at 31 December 2021	60,092,161	12,019

Exercise of share options was under the EMI scheme referred to in Note 12.

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.

Details of the movement in this share option scheme during the year is as follows:

	EMI	
	Options	Price £
Outstanding at 1 January 2021	52,500	2.17
Exercised during the year	(35,000)	2.18
Lapsed during the year	(17,500)	2.15
Open at 31 December 2021	–	–

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

	EMI Scheme
Weighted average share price	£2.16
Weighted average exercise price	£2.16
Expected volatility	41.0%
Expected life	3.0 years
Risk-free rate	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")

The Company has made a number of awards pursuant to the Long Term Incentive Plan as follows:

2021 LTIP Options

On 5 November 2021, nil-cost options over a total of 264,981 ordinary shares with a nominal value of 20.0 pence per share ("the Options") were awarded to certain members of the Senior Executive Team and 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 2024.

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

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

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 has been determined using both the Black–Scholes and Monte Carlo simulation models, in conjunction with a third-party valuation specialist.

Inputs into the option pricing models were as follows:

Weighted average share price	£3.62
Weighted average exercise price	£nil
Expected volatility	32.0%
Expected life	3.2 years
Expected dividend yield	1.10%
Fair value per option – EPS tranche	£3.50
Fair value per option – TSR tranche	£2.56
Risk-free rate	0.39%

2020 LTIP Options

On 17 November 2020, nil-cost options over a total of 377,120 ordinary shares with a nominal value of 20.0 pence 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. During the year under review, 16,555 of the options lapsed due to cessation of employment, leaving 360,565 options outstanding.

12 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%

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 has 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	2.3%
Fair value per option – EPS tranche	£1.60
Fair value per option – TSR tranche	£1.25
Risk-free rate	0.5%

2019 LTIP Options

On 6 June 2019, nil-cost options over a total of 425,279 ordinary shares with a nominal value of 20.0 pence 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. On 29 June 2020, a further grant of 14,076 ordinary shares was made to a member of the Group Leadership Team pursuant to the same performance and vesting criteria as the 2019 LTIP options. During 2020, 56,488 of the options lapsed due to cessation of employment. During 2021, a further 18,589 options lapsed, leaving 364,278 options outstanding.

The awards will normally vest three years after the date of grant subject to the performance criteria being met over the three-year financial period ended 31 December 2021. The performance conditions associated with the 2019 LTIP Options are the same as those for the 2020 LTIP Options noted above.

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 £235,000 (2020: £148,000).

13 RELATED PARTY TRANSACTIONS

Trading transactions

During the years ended 31 December 2021 and 31 December 2020, the following trading transactions took place between the Company and its subsidiaries, Animalcare Ltd and Ecuphar NV.

2021	**Ecuphar NV £'000**	**Total £'000**
Management charges levied	**109**	**109**

2020	Ecuphar NV £'000	Total £'000
Management charges levied	928	928

Remuneration of key management personnel

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

14 RESTATEMENT OF COMPARATIVE FIGURES

"Trade and other receivables" and "trade and other payables" have been restated to present "Amounts due from subsidiaries" and "Amounts due to subsidiaries" that were previously presented on a net basis, on a gross basis. Amounts included within "Other receivables", "Other creditors" and "Trade payables" have also been reclassed to "Amounts due from subsidiaries" and "Amounts due to subsidiaries". The impact on the balances for the year ended 31 December 2020 and 1 January 2020 is as follows:

£'000	31 December 2020	1 January 2020
Previously stated		
Trade and other receivables		
Amounts due from subsidiaries	510	766
Other receivables	1,140	871
Trade and other payables		
Trade payables	282	248
Other creditors	19	11
Amounts payable to subsidiaries	–	–
Adjusted		
Trade and other receivables		
Amounts due from subsidiaries	3,514	4,433
Other receivables	(1,140)	(844)
Trade and other payables		
Trade payables	(3)	(27)
Other creditors	1	(8)
Amounts payable to subsidiaries	(2,372)	(3,554)
Restated		
Trade and other receivables		
Amounts due from subsidiaries	4,024	5,199
Other receivables	–	27
Trade and other payables		
Trade payables	284	275
Other creditors	18	19
Amounts payable to subsidiaries	2,372	3,554

The cash flow statement has been restated to reflect the updated movements in Trade and other receivables and Trade and other payables, as follows:

£'000	31 December 2020
Previously stated	
(Increase)/decrease in receivables	(128)
Increase/(decrease in payables)	1,411
Adjusted	
(Increase)/decrease in receivables	(2,373)
Increase/(decrease in payables)	2,373
Restated	
Trade and other receivables	
(Increase)/decrease in receivables	(2,501)
Increase/(decrease in payables)	3,784

Directors and Advisers

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E Torr
J Boone
J Winter
Lord N Downshire
M Coucke

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C J Brewster

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