Independent Auditors' Report to the members of Animalcare Group plc

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2020 and of the Group's profit and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and Company statements of financial position as at 31 December 2020; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company cash flow statements, and the consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

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

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

Basis for opinion

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

Independence

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

Our audit approach

Overview

Audit scope

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

Key audit matters

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

Materiality

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

The scope of our audit

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

Capability of the audit in detecting irregularities, including fraud

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

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

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

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

Key audit matters

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

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

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

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

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

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

How we tailored the audit scope

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

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

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

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

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

Materiality

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

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

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

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

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

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

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

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

Conclusions relating to going concern

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

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

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

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Ian Morrison

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

Chartered Accountants
and Statutory Auditors
Leeds

30 March 2021

Consolidated Income Statement

YEAR ENDED 31 DECEMBER 2020

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

In order to aid understanding of underlying business performance, the Directors have presented underlying results before the effect of exceptional and other items. These exceptional and other items are analysed in detail in note 4 to these financial statements. The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

YEAR ENDED 31 DECEMBER 2020

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

* May be reclassified subsequently to profit and loss.

Consolidated Statement of Financial Position

YEAR ENDED 31 DECEMBER 2020

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

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

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

Jennifer Winter
Chief Executive Officer

Chris Brewster
Chief Financial Officer

Consolidated Statement of Changes in Equity

YEAR ENDED 31 DECEMBER 2020

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

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

Reverse acquisition reserve

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

Other reserve

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

Consolidated Cash Flow Statement

YEAR ENDED 31 DECEMBER 2020

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

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

Notes to the Consolidated Financial Statement

YEAR ENDED 31 DECEMBER 2020

1. Financial information

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

2. Basis of preparation

The Group financial statements have been prepared and approved by the Directors under the historical cost convention, except for the revaluation of certain financial instruments, as explained in note 21, in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. They have also been prepared in accordance with the requirements of the AIM Rules.

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

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 3. The accounting policies have been applied consistently.

Changes to significant accounting policies are described in note 3.

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

3. Summary of significant accounting policies

Going concern

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

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

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

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

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

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

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

Basis for consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries.

Entities are fully consolidated from the date of acquisition, which is the date when the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the entities are prepared for the same reporting period as the parent Company, using consistent accounting policies. All intra-Group balances, transactions, unrealised gains and losses resulting from intra-Group transactions and dividends are fully eliminated.

The Group attributes profit or loss and each component of other comprehensive income to the owners of the parent Company and to the non-controlling interest based on present ownership interests, even if the results in the non-controlling interest have a negative balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over the subsidiary, it will derecognise the assets (including goodwill) and liabilities of the subsidiary, any non-controlling interest and the other components that are equity related to the subsidiary. Any surplus or deficit arising from the loss of control is recognised in profit or loss. If the Group retains an interest in the previous subsidiary, then such interest is measured at fair value at the date the control is lost.

The proportion allocated to the parent and non-controlling interests in preparing the consolidated financial statements is determined based solely on present ownership interests.

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

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

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

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

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

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

Foreign currency transactions
Transactions denominated in foreign currencies are translated into euros at the exchange rate at the end of the previous month-end. Monetary items in the statement of financial position are translated at the closing rate at each reporting date and the relevant translation adjustments are recognised in financial or operating result depending on its nature.

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

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

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

Land is not depreciated.

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

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

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

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

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

3. Summary of significant accounting policies CONTINUED

To determine the incremental borrowing rate, the Group:

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

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

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

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

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

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

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

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

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

Intangible assets

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

The useful life of the intangible assets is as follows:

- Capitalised software — 5 years
- Patents, distribution rights and licenses — 7-12 years
- Product portfolios and product development — 10 years
- In-process research and development — not amortised
- Goodwill — not amortised

Intangible assets acquired separately

Intangible assets with finite useful lives which are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement based on its function which may be "cost of sales", "sales and marketing expenses", "research and development expenses" and "general and administrative expenses".

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

Goodwill

Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

Internally generated intangible assets - research and development expenditures

Research and development includes the costs incurred by activities related to the development of software solutions (new products, updates and enhancements), guides and other products. Expenditures in research and development activities are recognised as an expense in the period in which they are incurred.

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

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

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

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

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

Intangible assets acquired in a business combination

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

Impairment of non-financial assets

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

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

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

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

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

Investments in joint ventures

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

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

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

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

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

Inventories

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

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

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

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

Financial assets

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

Financial assets measured at amortised cost

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

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

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

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

Financial assets measured at amortised cost

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

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

3. Summary of significant accounting policies CONTINUED

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

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

Financial instruments measured at fair value through profit or loss

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

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

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

Derecognition

A financial asset is derecognised when:

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

Impairment of financial assets

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

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

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

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

Financial liabilities

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

Financial liabilities at amortised cost

Those financial liabilities are recognised initially at fair value plus directly attributable transaction costs and are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Derivative financial liabilities

The Group uses derivative financial instruments to hedge the exposure to changes in interest rates; however, the use of derivatives is limited and does not represent significant amounts. Derivative financial instruments are initially measured at fair value. After initial recognition, the financial instruments are measured at fair value through profit or loss.

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

Derecognition

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

Offsetting of financial instruments

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

Share capital

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

Dividends

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

Share-based payments

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

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

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

Provisions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Summary of significant accounting policies CONTINUED

liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

Events after balance sheet date

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

New standards adopted as of 2020

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

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

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

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

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

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

Significant accounting judgements, estimates and assumptions

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

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

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

Internally developed intangible assets

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

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

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

Income taxes

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

As at 31 December 2020, the Group had £1,929k (2019: £759k) of tax losses carried forward and other tax credits such as investment tax credits and notional interest deduction. These losses relate to the subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group.

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

Impairment of goodwill

The Group has goodwill for a total amount of £50,987k (2019: £50,454k) which has been subject to an impairment test. The goodwill is tested for impairment based on the value in use (VIU). The key assumptions for the VIU calculations are disclosed and further explained in note 9.

Impairment of slow-moving and obsolete inventory

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

Investment in STEM Animal Health Inc.

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

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

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

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

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

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

4. Non-recurring

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

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

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

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

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

5. Segment information

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

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

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

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

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

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

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

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

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

Revenue by product category

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

Revenue by geographical area

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

Revenue by category

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

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

6. Income and expenses

6.1 Cost of sales

Cost of sales includes the following expenses:

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

6.2 Research and development expenses

Research and development expenses include the following:

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

6.3 Selling and marketing expenses

Selling and marketing expenses include the following:

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

6 .4 General and administrative expenses

General and administrative expenses include the following:

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

6.5 Net other operating expenses
The net other operating expenses can be detailed as follows:

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

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

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

6.6 Expenses by nature

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

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

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

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

6. Income and expenses CONTINUED

6.8 Financial expenses

Financial expenses include the following elements:

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

6.9 Financial income

Financial income includes the following elements:

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

6.10 Income tax

Income tax

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

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

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

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

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

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

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

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

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

6. Income and expenses CONTINUED

Deferred tax

(a) Recognised deferred tax assets and liabilities

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

(b) Movements during the year

Movement of deferred taxes during 2020:

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

Movement of deferred taxes during 2019:

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

Tax losses

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

Deferred tax assets have been recognised on available tax losses carried forward for some legal entities, resulting in amounts recognised of £1,929k (2019: £759k). This was based on management's estimate that sufficient positive taxable basis will be generated in the near future for the related legal entities with fiscal losses.

7. Earnings per share

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

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

Profit/(loss) before continuing operations

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

Average number of shares (basic and diluted)

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

Basic earnings/(loss) per share

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

Diluted earnings/(loss) per share

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

8. Goodwill

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

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

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

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

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

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

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

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

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

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

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

9. Intangible assets

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

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

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

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

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

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

10. Property, plant and equipment

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

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

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

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

Leases

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

Borrowing costs

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

11. Investments in joint ventures

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

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

Notes to the Consolidated Financial Statement CONTINUED

YEAR ENDED 31 DECEMBER 2020

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

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

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

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

Summarised statement of comprehensive income:

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

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

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

12. Inventories

Inventories include the following:

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

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

13. Amounts receivable and other non-current assets

Trade receivables include the following:

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

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

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

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

Notes to the Consolidated Financial Statement CONTINUED

YEAR ENDED 31 DECEMBER 2020

13. Amounts receivable and other non-current assets CONTINUED

Other current assets include the following:

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

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

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

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

14. Cash and cash equivalents

Cash and cash equivalents include the following:

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

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. There were no restrictions on cash during 2020 and 2019.

15. Trade payables

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

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

16. Borrowings

The loans and borrowings include the following:

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

Revolving credit facilities and rollover investment facilities

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

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

The loans have a variable, Euribor-based interest rate, increased with a margin of 1.50% or 1.75%. As at 31 December 2020 the revolving credit facilities and the acquisition financing had a bullet maturity in March 2022.

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

17. Provisions

Provisions consist of the following:

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

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

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

Contingent liability relating to the sale of Medini NV

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

18. Non-current liabilities

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

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

19. Accrued charges and deferred income

Accrued charges and deferred income consists of the following:

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

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

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

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

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

The deferred income liabilities fall due as follows:

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

20. Other current liabilities

Other current liabilities include the following:

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

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

21. Fair value

Financial assets

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

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

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

- The carrying value of the cash and cash equivalents and the current receivables approximate their fair value due to their short-term character.
- Trade and other receivables are being evaluated on the basis of their credit risk and interest rate. Their fair value is not different from their carrying value on 31 December 2020 and 2019.

Call option to acquire an additional 18% share in joint venture STEM Animal Health Inc.

- The Group has a call option to acquire an additional 18% share in its joint venture STEM Animal Health Inc. exercisable for a period of six years. The call option is valued at fair value through Profit and Loss and has a carrying value of £nil as of 31 December 2020 and will be remeasured every year. The call option is considered at level 3 in the fair value hierarchy. Further disclosure is provided in note 3 Significant accounting judgements, estimates and assumptions.

Financial liabilities

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

	Carrying value		Fair value	
	2020 **£'000**	2019 £'000	**2020** **£'000**	2019 £'000
Financial liabilities measured at amortised cost				
Borrowings	**17,787**	22,040	**17,787**	22,040
Lease liabilities	**1,812**	1,936	**1,812**	1,936
Trade payables	**11,348**	10,334	**11,348**	10,334
Other liabilities	**6,996**	6,748	**6,996**	6,748
Total financial liabilities measured at amortised cost	**37,943**	41,058	**37,943**	41,058
Total non-current	**18,010**	22,534	**18,010**	22,534
Total current	**19,933**	18,524	**19,933**	18,524

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

- The carrying value of trade payables and other liabilities approximates their fair value due to the short-term character of these instruments.
- Loans and borrowings are evaluated based on their interest rates and maturity date. Most interest-bearing debts have floating interest rates and their fair value approximates to their amortised cost value.

Fair value hierarchy

The fair value hierarchy is described in note 3. The financial liabilities are calculated based on level 1.

22. Equity

Share capital

	For the year ended 31 December	
Number of shares	**2020**	2019
Allotted, called up and fully paid Ordinary Shares of 20p each	**60,057,161**	60,057,161

	For the year ended 31 December	
	2020 £'000	2019 £'000
Allotted, called up and fully paid Ordinary Shares of 20p each	**12,012**	12,012

The following share transactions have taken place during the year ended 31 December 2020:

	For the year ended 31 December	
	2020 £'000	2019 £'000
At 1 January 2020	**60,057,161**	12,012
At 31 December 2020	**60,057,161**	12,012

Dividends

	For the year ended 31 December	
	2020 £'000	2019 £'000
Ordinary final dividend paid for the period ended 31 December 2018 of 2.4p per share	**–**	1,441
Ordinary interim dividend paid for the period ended 31 December 2019 of 2.0p per share	**–**	1,201
Ordinary interim dividend paid for the period ended 31 December 2020 of 2.0p per share	**1,201**	–
	1,201	2,642

The proposed final dividend of 2.0 pence per share is subject to approval of shareholders at the Annual General Meeting and has not been included as a liability as at 31 December 2020, in accordance with IAS 10 Events After the Reporting Period.

23. IFRS 16 Leases

The balance sheet shows the following amounts relating to leases as at 31 December 2020:

	31 December 2020 £'000	1 January 2020 £'000
Buildings	**831**	893
Vehicles	**958**	989
Other	**1**	35
Total right-of-use assets	**1,790**	1,917
Current lease liabilities	**951**	830
Non-current lease liabilities	**861**	1,106
Total lease liabilities	**1,812**	1,936

23. IFRS 16 Leases CONTINUED

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

	Land and buildings £'000	Vehicles £'000	Other £'000	Total £'000
Acquisition value				
At 31 December 2019	1,271	1,587	81	2,939
Additions	343	583	–	926
Disposals and contract modifications	(30)	(225)	(2)	(257)
Transfers	(71)	–	–	(71)
Currency translation	57	84	5	146
At 31 December 2020	**1,570**	**2,029**	**84**	**3,683**
Depreciation				
At 31 December 2019	(378)	(598)	(46)	(1,022)
Depreciation charge for the year	(433)	(619)	(31)	(1,083)
Disposals and contract modifications	22	181	(3)	200
Transfers	71	–	–	71
Currency translation	(21)	(35)	(3)	(59)
At 31 December 2020	**(739)**	**(1,071)**	**(83)**	**(1,893)**
Net book value				
At 31 December 2020	**831**	**958**	**1**	**1,790**

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

	Lease liability £'000
At 1 January 2020	**1,936**
Additions	926
Disposals	(57)
Interest expense	59
Payments	(1,140)
CTA	88
At 31 December 2020	**1,812**

The following amounts are recognised in the income statement:

	For the year ended 31 December 2020 £'000
Depreciation expense of right-of-use assets	**(1,083)**
Interest expense on lease liabilities	**(59)**
(Loss)/gain on disposal of IFRS16 assets	**–**
Expense relating to short-term leases and low-value assets	**(187)**
Total amount recognised in the income statement	**(1,329)**

Cash-flows relating to leases are presented as follows:

- Cash payments for the principal portion of the lease liabilities as cash flows from financing activities;
- Cash payments for the interest portion consistent with presentation of interest payments chosen by the Group, and;
- Short-term lease payments, payments for leases of low-value assets and variable lease payments that are not included in the measurement of the lease liabilities as cash flows from operating activities.

24. Risks

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

Credit risk

As at 31 December 2020 the Group's maximum exposure to credit risk is £10,142k, which is the amount of the trade receivables in the consolidated financial statements (2019: £10,891k).

To control this risk, the Group has set up a strict credit collection process. Historically, no major bad debts have been recorded. The Group has no individual customers who represent a significant part of the consolidated turnover, nor of the trade receivables at year-end.

The following is an ageing schedule of trade receivables:

	Total £'000	Non-due £'000	< 30 days £'000	31-60 days £'000	61-90 days £'000	91-180 days £'000	> 181 days £'000	Expected loss rate
31 December 2020	**10,142**	**10,151**	**(92)**	**56**	**5**	**(50)**	**72**	**0%**
31 December 2019	10,891	9,410	1,340	47	(9)	12	91	0%

Liquidity risk

Liquidity risk is the risk that the Company may not be able to meet its financial obligations as they fall due. The Group expects to meet its obligations related to the financing agreements through operating cash flows. Additionally, the Group ensures there is sufficient headroom on the existing credit lines to have an additional working capital buffer. As at 31 December 2020, the Group had the following sources of liquidity available:

- Cash and cash equivalents: £5,265k
- Undrawn credit facilities with several banks: £(18,462)k
- Undrawn acquisition financing: £(4,679)k

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

	< 1 year £'000	**1 to 3 years £'000**	**4-5 years £'000**	**> 5 years £'000**	**Total £'000**
At 31 December 2020					
Borrowings	**(637)**	**(17,296)**	**–**	**–**	**(17,933)**
Lease liabilities	**(951)**	**(1,151)**	**(607)**	**–**	**(2,709)**
Trade payables	**(11,348)**	**–**	**–**	**–**	**(11,348)**
Other current liabilities	**(3,202)**	**–**	**–**	**–**	**(3,202)**
Total	**(16,138)**	**(18,447)**	**(607)**	**–**	**(35,192)**

	< 1 year £'000	1 to 3 years £'000	4-5 years £'000	> 5 years £'000	Total £'000
At 31 December 2019					
Borrowings	(612)	(21,428)	–	–	(22,040)
Lease liabilities	(830)	(493)	(677)	–	(2,000)
Trade payables	(10,334)	–	–	–	(10,334)
Other current liabilities	(2,799)	–	–	–	(2,799)
Total	(14,575)	(21,921)	(677)	–	(37,173)

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

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

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

24. Risks CONTINUED

Foreign exchange risk

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

	For the year ended 31 December			
	Assets 2020 £'000	Assets 2019 £'000	**Liabilities 2020 £'000**	Liabilities 2019 £'000
EUR/GBP	**13,166**	6,407	**17,131**	5,973
GBP/EUR	**8,920**	899	**13,602**	333
EUR/USD	**–**	115	**435**	–
GBP/USD	**–**	7	**61**	350
EUR/DKK	**–**	–	**2**	1
EUR/CAD	**–**	–	**1,457**	–
EUR/SEK	**7**	–	**–**	–

The cumulative effect of the foreign currency translation effects is reported under other comprehensive income in the statement of financial position and amounts to £3,058k (2019: £2,550k).

At the end of the reporting year, the Group is mainly exposed to the EUR, the USD and the CAD. The following table details the effect of a 10.00% increase and decrease in the exchange rate of these currencies against the functional currencies GBP and EUR, when applied to outstanding monetary items denominated in foreign currency as at 31 December 2020. A positive number indicates that an increase in profit would arise from a 10.00% change in value of GBP or EUR against these currencies, a negative number indicates that a decrease would arise.

	Strengthening £'000	Weakening £'000
EUR/GBP	396	(396)
GBP/EUR	468	(468)
EUR/USD	44	(44)
GBP/USD	6	(6)
EUR/CAD	146	(146)

Interest rate risk

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

If the interest rates would have been 100 bp higher/lower, the financial result would have been £175k lower/higher in 2020 and £260k lower/higher in 2019.

Capital management

The primary objective of the Group's shareholders' capital management strategy is to ensure it maintains healthy capital ratios to support its business and maximise shareholder value. Additionally, minimum solvency ratios are agreed upon in the financing agreements. Capital is defined as the Group shareholder's equity which amounts to £81,592k as at 31 December 2020 (2019: £81,889k).

The Group consistently reviews its capital structure and makes adjustments in light of changing economic conditions and performances of the Group. The Group made no changes to its capital management objectives, policies or processes during the years ended 31 December 2020 and 2019.

25. Remuneration paid to the Company's auditors

	For the year ended 31 December	
	2020 £'000	2019 £'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	**95**	60
The audit of the Company's subsidiaries pursuant to legislation	**123**	120
Total audit fees	**218**	180
Other services	**2**	–
Total non-audit fees	**2**	–
Total auditors' remuneration	**220**	180

26 Share-based payments

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

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

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

Animalcare Group plc Executive Share Option Scheme

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

SAYE Option Scheme

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

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

	EMI		SAYE	
	Options	Price £	Options	Price £
Outstanding at 1 January 2020	72,500	2.00	6,629	2.28
Lapsed during the year	(20,000)	1.56	(6,629)	2.28
Open at 31 December 2020	**52,500**	**2.17**	**–**	**–**

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

	EMI Scheme	SAYE Scheme
Weighted average share price	216p	284p
Weighted average exercise price	216p	228p
Expected volatility	41.00%	40.00%
Expected life	3.0 years	3.1 years
Risk-free rate	**0.50%**	**0.50%**

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

Long Term Incentive Plan ("LTIP")

On 17 November 2020, nil-cost options over a total of 377,120 ordinary shares with a nominal value of 20p per share ("the 2020 LTIP Options") were awarded to certain Executive Directors of the Company and to members of the Group Leadership Team pursuant to the Company's Long Term Incentive Plan.

26. Share-based payments CONTINUED

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

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

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

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

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

Inputs into the option pricing models were as follows:

Weighted average share price	£1.72
Weighted average exercise price	£Nil
Expected volatility	29.0%
Expected life	3.1 years
Expected dividend yield	2.30%
Fair value per option – EPS tranche	£1.60
Fair value per option – TSR tranche	£1.25
Risk-free rate	0.50%

On 6 June 2019, nil-cost options over a total of 425,279 ordinary shares with a nominal value of 20p per share ("the 2019 LTIP Options") were awarded to certain Executive Directors and PDMRs of the Company and to members of the Group Leadership Team pursuant to the Company's Long Term Incentive Plan. On 29 June 2020, a further grant of 14,076 ordinary shares was made to a member of the Leadership Team pursuant to the same performance and vesting criteria as the 2019 LTIP options. During the year under review, 56,488 of the 2019 LTIP Options lapsed due to cessation of employment of certain members of the Group Leadership Team; 382,867 of the 2019 LTIP Options are outstanding.

The awards will normally vest three years after the date of grant subject to the following performance criteria being met over the three-year financial period ending 31 December 2021. The Options will vest to the extent the following performance conditions based on EPS and TSR are met:

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

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

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

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

Inputs into the option pricing models were as follows:

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

The Company recognised a total charge in respect of share-based payments of £162k (2019: £12k).

27. Related party transactions

This disclosure provides an overview of all transactions with related parties. Interests in subsidiaries are disclosed in note 28.

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

Remuneration of the Directors, who are the key management personnel of the Group, is included in the Directors' Remuneration Report on page 50.

28. Overview of consolidated entities

Name	Country of incorporation	Registered address	% equity interest 2020	2019	Consolidation method
Ecuphar NV	Belgium	Legeweg 157i, 8020 Oostkamp	**100%**	100%	Fully consolidated
Orthopaedics.be NV	Belgium	Legeweg 157i, 8020 Oostkamp	**100%**	100%	Fully consolidated
Ecuphar BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	**100%**	100%	Fully consolidated
Ecuphar Veterinary Products BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	**100%**	100%	Fully consolidated
Ornis SA	France	Rue de Roubaix 33, 59200 Tourcoing	**100%**	100%	Fully consolidated
Ecuphar GmbH	Germany	Brandteichstraße 20, 17489 Greifswald	**100%**	100%	Fully consolidated
Euracon Pharma Consulting und Trading GmbH	Germany	Brandteichstraße 20, 17489 Greifswald	**100%**	100%	Fully consolidated
Ecuphar Veterinaria SA	Spain	Avenida Río de Janeiro, 60 – 66, planta 13, 08016 Barcelona	**100%**	100%	Fully consolidated
Ecuphar Italia	Italy	Viale Francesco Restelli, 3/7, piano 1, 20124 Milano	**100%**	100%	Fully consolidated
Belphar	Portugal	R. Carlos Alberto da Mota Pinto, Nº 17 – 3ºA, 1070–313 Lisboa	**100%**	100%	Fully consolidated
Animalcare Plc	United Kingdom	Unit 7, 10 Great North Way, York Business Park, Nether Poppleton, York, YO26 6RB	**100%**	100%	Fully consolidated
Animalcare Group plc	United Kingdom	Unit 7, 10 Great North Way, York Business Park, Nether Poppleton, York, YO26 6RB	**100%**	100%	Fully consolidated
STEM Animal Health Inc.	Canada	Innovation Drive Winnipeg 162–196, Manitoba, R3T 2N2	**33%**	0%	Equity method

29. Events after balance sheet date

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

Company Statement of Financial Position

AS AT 31 DECEMBER 2020

	Notes	For the year ended 31 December 2020 £'000	2019 £'000
Non-current assets			
Investments in subsidiary companies	6	**147,743**	147,743
Deferred tax asset	10	**5**	5
		147,748	147,748
Current assets			
Trade and other receivables	7	**1,737**	2,758
Cash and cash equivalents	8	**60**	553
		1,797	3,311
Total assets		**149,545**	151,059
Current liabilities			
Trade and other payables	9	**(601)**	(368)
		(601)	(368)
Net current assets		**1,196**	2,943
Total liabilities		**(601)**	(368)
Net assets		**148,944**	150,691
Capital and reserves			
Called-up share capital	11	**12,012**	12,012
Share premium account		**132,729**	132,729
Retained earnings		**4,203**	5,950
Equity attributable to equity holders of the parent	16	**148,944**	150,691

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present a separate Profit and Loss account in these separate financial statements. The loss dealt with in the financial statements of the Company was £694k (profit 2019: £7,230k).

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

Jennifer Winter
Chief Executive Officer

Chris Brewster
Chief Financial Officer

Company Statement of Changes in Equity

YEAR ENDED 31 DECEMBER 2020

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2019		12,012	132,729	1,321	146,062
Total comprehensive profit for the period		–	–	7,230	7,230
Transactions with owners of the Company, recognised in equity:		–	–	–	–
Dividends paid		–	–	(2,642)	(2,642)
Share-based payments		–	–	41	41
Balance at 1 January 2020		**12,012**	**132,729**	**5,950**	**150,691**
Total comprehensive loss for the period	3	**–**	**–**	**(694)**	**(694)**
Transactions with owners of the Company, recognised in equity:		**–**	**–**	**–**	**–**
Dividends paid	5	**–**	**–**	**(1,201)**	**(1,201)**
Share-based payments	12	**–**	**–**	**148**	**148**
Balance at 31 December 2020		**12,012**	**132,729**	**4,203**	**148,944**

Company Cash Flow Statement

YEAR ENDED 31 DECEMBER 2020

	Note	For the year ended 31 December 2020 £'000	2019 £'000
Comprehensive (loss)/income for the year before tax		**(723)**	7,122
Adjustments for:			
Finance cost		**425**	27
Share-based payment expense	12	**148**	41
Operating cash flows before movements in working capital		**(137)**	7,190
(Increase)/decrease in receivables	7	**(128)**	(885)
Increase/(decrease) in payables	9	**1,411**	(4,494)
Net cash flow from operating activities		**1,146**	1,811
Investing activities:			
Interest paid		**(425)**	(27)
Net cash (used in)/generated by investing activities		**(438)**	(27)
Financing:			
Equity dividends paid	5	**(1,201)**	(2,642)
Net cash used in financing activities		**(1,201)**	(2,642)
Net decrease in cash and cash equivalents		**(493)**	(858)
Cash and cash equivalents at start of year		**553**	1,411
Cash and cash equivalents at end of year		**60**	553
Comprising:			
Cash and cash equivalents	8	**60**	553

Notes to the Company Financial Statement

YEAR ENDED 31 DECEMBER 2020

1. Significant accounting policies

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

Basis of preparation

The Company financial statements cover the period of 12 months from 1 January 2020 to 31 December 2020.

The Group financial statements have been prepared and approved by the Directors under the historical cost convention, in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ("IFRS") and the applicable legal requirements of the Companies Act 2006. They have also been prepared in accordance with the requirements of the AIM Rules.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present a separate Profit and Loss account in these separate financial statements. The loss dealt with in the financial statements of the Company was £694k (profit 2019: £7,230k).

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

Going concern

The Directors have assessed the Company's ability to continue in operational existence for the foreseeable future. The uncertainty as to the future impact on the Company of the recent COVID-19 outbreak has been considered as part of the assessment performed by the Group. A detailed summary of the scenarios considered by the Group is included in note 3 to the consolidated financial statements. The Directors have a reasonable expectation that the Group and Company will have sufficient cash flow and resources to continue operating for at least 12 months from the approval date of these financial statements. Accordingly, the Directors continue to adopt the going concern basis of preparation.

Employee benefits – pensions

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

Investments in subsidiaries

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

Dividends

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

Share-based payments

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

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

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

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

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

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

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

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

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

New standards adopted as of 2020
The Company has no transactions that would be affected by newly effective standards or its accounting policies are already consistent with the new requirements. The Company has not early adopted any other standard.

2. Non-recurring items

	Note	**2020 £'000**	2019 £'000
Professional and other fees relating to the reverse acquisition			
Acquisition expenses		**–**	15
Restructuring and integration costs		**180**	204
Compensation for loss of office	4	**–**	97
Other exceptional costs		**–**	8
Total exceptional and other items		**180**	324

The Company presents certain items as exceptional income or expense that, in the judgement of the Directors, merit separate disclosure by virtue of their nature, size and incidence.

Restructuring and integration costs totalling £180,000 (£204,000) mainly relate to professional fees in respect of Group-wide employment, legal and tax structuring advice.

Compensation for loss of office in 2019 of £97,000 represents the salary paid, including employer social contributions, to Mr Menneer during his gardening leave from 1 January 2019 to 26 April 2019.

3. Total comprehensive (loss)/income for the year

	2020 £'000	2019 £'000
Total comprehensive (loss)/income for the year has been arrived at after charging/(crediting):		
Finance costs	**425**	27
Dividend income received from subsidiary – Ecuphar NV	**–**	7,897

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

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

	2020 £'000	2019 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**95**	60
Total audit fees	**95**	60

4. Directors' remuneration and interests

Emoluments

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

Year ended 31 December 2020	Salary £'000	Bonus £'000	Company pension contributions £'000	Benefits £'000	Compensation for loss of office £'000	Total £'000
J Boone*	**70**	**–**	**–**	**–**	**–**	**70**
C Brewster	**205**	**51**	**25**	**13**	**–**	**294**
C Cardon	**35**	**–**	**–**	**–**	**–**	**35**
M Coucke*	**40**	**–**	**–**	**–**	**–**	**40**
N Downshire*	**40**	**–**	**–**	**–**	**–**	**40**
E Torr*	**45**	**–**	**–**	**–**	**–**	**45**
J Winter	**300**	**94**	**–**	**14**	**–**	**408**
Total	**735**	**145**	**25**	**27**	**–**	**932**

Year ended 31 December 2019	Salary £'000	Bonus £'000	Company pension contributions £'000	Benefits £'000	Compensation for loss of office £'000	Total £'000
J Boone*	70	–	–	–	–	70
C Brewster	205	41	25	13	–	284
C Cardon	35	–	–	–	–	35
M Coucke*	40	–	–	–	–	40
N Downshire*	40	–	–	–	–	40
J S Lambert* (resigned 25 June 2019)	20	–	–	–	–	20
I D Menneer[1]	–	–	–	–	90	90
E Torr*	43	–	–	–	–	43
J Winter	285	71	–	14	–	370
Total	738	112	25	27	90	992

* Indicates Non-Executive Directors

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

The approved bonus awards to C Brewster and J Winter were accrued as at 31 December 2020 and will be settled post year end.

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

Share options

On 17 November 2020, nil-cost options over a total of 232,609 ordinary shares with a nominal value of 20p per share ("the Options") were awarded to the Executive Directors of the Company pursuant to the Company's Long Term Incentive Plan ("the LTIP"). Full details of the LTIP are disclosed in note 12.

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

PDMR	Options awarded	Total Options
Jennifer Winter	165,761	343,331
Chris Brewster	66,848	143,484

5. Dividends

	2020 £'000	2019 £'000
Ordinary final dividend paid for the period ended 31 December 2018 of 2.4p per share	–	1,441
Ordinary interim dividend paid for the period ended 31 December 2019 of 2.0 per share	–	1,201
Ordinary final dividend paid for the period ended 31 December 2020 of 2.0p per share	1,201	–
	1201	2,642

The proposed final dividend of 2.0 pence per share is subject to approval of shareholders at the Annual General Meeting and has not been included as a liability as at 31 December 2020, in accordance with IAS 10 Events After Reporting Period.

6. Investments in subsidiaries

Subsidiary undertakings

Cost	2020 £'000
At 1 January 2020 and 31 December 2020	147,743

The Directors consider that the carrying value of the investments are supported by future cash flows of the subsidiaries. A list of the subsidiary undertakings, all of which are wholly owned, is given below.

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

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7. Other financial assets

Trade and other receivables

	2020 £'000	2019 £'000
Corporation tax – Group relief	**29**	1,089
Other receivables	**1,140**	871
Prepayments and accrued income	**57**	32
Amounts due from subsidiaries	**510**	766
	1,737	2,758

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

8. Cash and cash equivalents

	2020 £'000	2019 £'000
Cash and cash equivalents	**60**	553

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

9. Other financial liabilities

	2020 £'000	2019 £'000
Trade payables	**282**	248
Other taxes and social security costs	**35**	61
Other creditors	**19**	11
Accruals	**265**	48
	601	368

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

10. Deferred tax

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

	Accelerated tax depreciation £'000	Share-based payments £'000	Other £'000	Total £'000
Balance at 1 January 2019	(5)	–	(2)	(7)
Charge/(credit) to income	2	–	–	2
Balance at 31 December 2019	(3)	–	(2)	(5)
Charge/(credit) to income				
At 31 December 2020	**(3)**	**–**	**(2)**	**(5)**

Deferred tax balances have been calculated at an effective rate of 19%, being the substantively enacted rate at 31 December 2020. The March 2021 Budget announced an increase in the UK standard rate of corporation tax to 25% from 1 April 2023. The legislation was not enacted during the year so deferred tax has been provided using the enacted rate of 19%.

11. Share capital

	No.	£'000
Allotted, called up and fully paid at 1 January 2020 and 31 December 2020	**60,057,161**	**12,012**

Notes to the Company Financial Statement CONTINUED

YEAR ENDED 31 DECEMBER 2020

12. Share-based payments

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

Animalcare Group plc Executive Share Option Scheme

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

SAYE Option Scheme

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

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

	EMI		SAYE	
	Options	Price £	Options	Price £
Outstanding at 1 January 2020	**72,500**	**2.00**	**6,629**	**2.28**
Lapsed during the year	(20,000)	1.56	(6,629)	2.28
Open at 31 December 2020				
Exercisable at the end of the year	**52,500**	**2.17**	**–**	**–**

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

	EMI Scheme	SAYE Scheme
Weighted average share price	£2.16	£2.84
Weighted average exercise price	£2.16	£2.28
Expected volatility	41.0%	40.0%
Expected life	3.0 years	3.1 years
Risk-free rate	0.5%	0.5%

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

Long Term Incentive Plan ("LTIP")

On 17 November 2020, nil-cost options over a total of 377,120 ordinary shares with a nominal value of 20p per share ("the Options") were awarded to certain Executive Directors and PDMRs of the Company and to members of the Group Leadership Team pursuant to the Company's Long Term Incentive Plan.

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

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

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

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

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

12. Share-based payments CONTINUED

Inputs into the option pricing models were as follows:

Weighted average share price	£1.72
Weighted average exercise price	£nil
Expected volatility	29.0%
Expected life	3.1 years
Expected dividend yield	2.3%
Fair value per option – EPS tranche	£1.60
Fair value per option – TSR tranche	£1.25
Risk-free rate	0.5%

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

The awards will normally vest three years after the date of grant subject to the following performance criteria being met over the three-year financial period ending 31 December 2021. The Options will vest to the extent the following performance conditions based on EPS and TSR are met:

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

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

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

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

Inputs into the option pricing models were as follows:

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

The Company recognised a total charge in respect of share-based payments of £148,000 (2019: £12,000).

13. Related party transactions

Trading transactions

During the years ended 31 December 2020 and 31 December 2019, the following trading transactions took place between the Company and its subsidiaries, Animalcare Ltd and Ecuphar NV.

2020	**Ecuphar NV £'000**	**Animalcare Ltd £'000**	**Total £'000**
Management charges levied	**928**	**–**	**928**

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

Remuneration of key management personnel

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