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 2022 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 UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: Consolidated and Company statements of financial position as at 31 December 2022; the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statements of changes in equity, and the Consolidated and Company cash flow statements for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Our audit approach

Overview

AUDIT SCOPE

- The Group is organised into 14 reporting components and the Group financial statements are a consolidation of these reporting components. The reporting components vary in size.
- We identified five components that required a full scope audit of their financial information due to either their size or risk characteristics. Of these, Animalcare Group plc and Animalcare Ltd were audited by the Group engagement team. Ecuphar N.V.,Ecuphar Veterinaria S.L. and Ecuphar GmbH were audited by PwC component auditors.
- Additionally, STEM Animal Health Inc. was included for a full scope audit due to material disclosures with respect to its financial position and results that are included within the consolidated financial statements. This audit was undertaken by a non-PwC component auditor.
- Two reporting components were also subject to audit procedures performed by the Group engagement team. Belphar IDA required procedures over income tax liabilities and deferred taxes and Identicare Limited required procedures over service sales, right-of-use assets, lease liabilities, provisions and contract liabilities due to the contribution to the overall financial statement line items in the consolidated financial statements. The Group engagement team also audited material consolidation journals.
- As a result of this scoping we obtained coverage over 79% of the Group's revenues and 83% of the Group's underlying EBITDA.

KEY AUDIT MATTERS

- Carrying value of intangibles relating to products in development (group)
- Classification of items as non-underlying (group)
- Risk of impairment of investments in subsidiaries (parent)

MATERIALITY

- Overall group materiality: £325,000 (2021: £336,000) based on 2.5% of underlying Earnings Before Interest, Tax, Depreciation and Amortisation, adjusted for non-underlying items ('underlying EBITDA').
- Overall company materiality: £290,000 (2021: £210,000) based on 1% of total assets (capped below Group materiality).
- Performance materiality: £243,750 (2021: £252,000) (group) and £217,500 (2021: £157,500) (company).

The scope of our audit

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

Key audit matters

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

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

Carrying value of intangibles relating to products in development (group) and Classification of non-underlying items are new key audit matters this year. Carrying value of intangibles may be impaired (Group), which was a key audit matter last year, is no longer included because of a refinement of the assessed risk concluding that only intangible assets relating to products in development presented a heightened risk. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Carrying value of intangibles relating to products in development (group)	
The Group has a significant amount of product development related intangible assets of which a net book value of £1.5 million as at 31 December 2022 (2021: £1.6 million) relates to products which are not currently commercialised and therefore not amortised. This amount is spread across multiple intangible asset categories. Intangible assets not yet available for use are assessed annually for impairment. Management has prepared forecasts of future sales and margins which involve estimates, concluding that no impairment is required on these assets in the current year. See the summary of significant accounting policies section within the Consolidated financial statements for disclosure of the related accounting policies and Note 9 within the Consolidated financial statements for details of intangible assets.	We considered whether management's conclusion in relation to there being no impairment is appropriate through performing the following procedures: • We agreed the carrying values of the assets being assessed for impairment to the balance sheet and assessed the completeness of the assets categorised as not yet commercialised; • We reviewed the forecast financial performance of the projects not currently commercialised, tracing the forecast financial information to the latest Board approved budget and product development business cases, where applicable; • We held discussions with management to understand and challenge their forecasts; • We considered any contradictory evidence from related investment impairment reviews; and • We considered the accuracy of previous management forecasts. Based on the procedures performed, no issues have been noted with the carrying value of intangible assets relating to projects not currently commercialised. The carrying value and the associated disclosures within the consolidated financial statements are considered appropriate.

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

Key audit matter	How our audit addressed the key audit matter
Classification of items as non-underlying (group) 'Underlying EBITDA' is one of the Group's Alternative Performance Measures. Management uses this measure to improve the transparency and clarity of the Group's financial performance. Non-underlying items before taxes total £6.5 million (2021: £8.6 million) representing: • Amortisation and impairment of acquired intangible assets (£5.36 million); • Restructuring costs (£0.28 million); • Acquisition and integration costs (£0.34 million); • Charges relating to a long-term incentive plan (£0.22 million); • Income relating to divestments and business disposals (£0.15 million); • Costs associated with office relocations (£0.18 million); • Other non-underlying items where Management considers their nature and expected frequency of events giving rise to them, merit separate disclosure (£0.28 million). The risk we have focussed on is that the determination of which items are to be excluded from underlying results is subject to judgement and therefore the users of the Group financial statements could be misled if amounts are not classified and disclosed in a transparent manner and consistently with the Group's accounting policy. See the summary of significant accounting policies section within the Consolidated financial statements for disclosure of the related accounting policies and Note 4 within the Consolidated financial statements for details of non-underlying items.	We considered whether the classification of non-underlying items was appropriate. We performed the following procedures: • We reviewed management's definition and classification of non-underlying items, including the sub-categorisation of these items; • We obtained supporting evidence to corroborate the accuracy and completeness of non-underlying items; • We challenged management on the classification of non-underlying items through consideration of the application of the accounting policy including those items classified as 'other non-underlying items'; and • We challenged management over disclosures relating to non-underlying items to ensure that these were appropriate and consistent with the individual exceptional items and the work performed. Based on the procedures performed, we found no material issues and the non-underlying items are appropriately classified in accordance with the stated accounting policy.

Key audit matter	How our audit addressed the key audit matter
Risk of impairment of investments in subsidiaries (parent) The parent company has investments in subsidiary companies of £147.9 million (2021: £147.7 million), which is reviewed annually for impairment indicators with an impairment review performed where necessary. An impairment trigger has been identified due to the market capitalisation of the Group falling below the investment carrying value. No impairment charge has been recorded by management in the current year with respect to the carrying value of the investments in subsidiary companies balance within Animalcare Group plc. The risk we have focused on is that the investments in subsidiary companies balance could be overstated and an impairment charge may be required. We focused on this area because the determination of whether or not the investments in subsidiary companies are impaired involves significant assumptions about the future results and cash flows of the business and these assumptions are highly sensitive to reasonably possible changes. The headroom for the carrying value of investments is calculated by comparing the value in use of the Group, adjusted by net debt with the carrying value of the investments in subsidiary companies balance. The determination of the value in use includes a number of key assumptions which include: • Forecast cash flows for the next five years; • A long-term (terminal) growth rate applied beyond the end of the five-year forecast period; and • A discount rate applied to the model. See the significant accounting policies section within the Company only financial statements for disclosure of the related accounting policies, judgements and estimates and Note 6 within the Company only financial statements for details of the investments in subsidiary companies, including sensitivities for the impact of reasonably possible change in assumptions.	We understood and evaluated management's budgeting and forecasting process. We obtained the impairment analysis and performed the following procedures: • We tested the mathematical accuracy of the impairment model and agreed the carrying value of the investments balance to the balance sheet; • We challenged management's calculated Group weighted average cost of capital (WACC) used for discounting future cash flows within the impairment model, utilising valuation experts to assess the cost of capital for the Group and benchmarking this against comparable organisations; • We traced the forecast financial information within the model to the latest Board approved budget. We have also compared FY22 actuals to the FY23–FY27 forecasts and challenged management to provide support to corroborate trading and growth assumptions, support for operating and capital expenditure, including where required for new products, and considered the accuracy of previous forecasts; • We assessed the long-term growth rate used by comparing it to third-party forecast long-term growth rates utilising valuation experts; • We performed sensitivity analysis to ascertain the impact of reasonably possible changes in key assumptions; and • We challenged management over disclosures to ensure that these were appropriate and reflective of the sensitivity of key assumptions. In summary, we found, based on our audit work, the carrying value of investments in subsidiaries to be reasonable, albeit the assessment is highly sensitive to reasonably possible changes in assumptions, as disclosed within Note 6 within the Company only financial statements.

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

We identified five components that required a full scope audit of their financial information due to either their size or risk characteristics. Of these, Animalcare Group plc and Animalcare Ltd were audited by the Group engagement team. Ecuphar N.V., Ecuphar Veterinaria S.L. and Ecuphar GmbH were audited by PwC component auditors.

Additionally, STEM Animal Health Inc. was included for a full scope audit due to material disclosures with respect to its financial position and results that are included within the consolidated financial statements. This audit was undertaken by a non-PwC component auditor.

Two reporting components were also subject to audit procedures performed by the Group engagement team. Belphar IDA required procedures over income tax and deferred taxes and Identicare Limited required procedures over service sales, right-of-use assets, lease liabilities, provisions and contract liabilities due to the contribution to the overall financial statement line items in the consolidated financial statements. The Group engagement team also audited material consolidation journals.

The Group audit team supervised the direction and execution of the audit procedures performed by the PwC and non-PwC component audit teams.

Our involvement in their audit process, including reviewing their risk assessment, attending component clearance meetings, review of their reporting results and review of the supporting working papers for the five components in scope due to either their size or risk characteristics, together with the additional procedures performed at Group level, gave us the evidence required for our opinion on the consolidated financial statements as a whole.

The impact of climate risk on our audit

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

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

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole, or our key audit matters for the year ended 31 December 2022.

Materiality

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

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

	Financial statements - group	Financial statements - company
Overall materiality	£325,000 (2021: £336,000).	£290,000 (2021: £210,000).
How we determined it	2.5% of underlying Earnings Before Interest, Tax, Depreciation and Amortisation, adjusted for non-underlying items ('underlying EBITDA')	1% of total assets (capped below Group materiality)
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, underlying EBITDA, is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.	We believe that total assets are considered to be appropriate as the entity is not a profit-oriented company. The Company is a holding company only and total assets is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £70,000 to £308,000. 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% (2021: 75%) of overall materiality, amounting to £243,750 (2021: £252,000) for the group financial statements and £217,500 (2021: £157,500) for the company financial statements.

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £16,250 (group audit) (2021: £16,800) and £16,250 (company audit) (2021: £10,500) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- We assessed management's basecase forecast, as well as their severe but plausible downside scenario, which have formed the basis for the Group's assessment and conclusions with respect to their ability to continue as a going concern;
- We have considered the availability of bank facilities and compliance with the related covenants over the going concern period;
- We evaluated the historical accuracy of the budgeting process to assess the reliability of the forecasts;
- 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 2023 to management's forecast; and
- We reviewed the disclosures within the Annual Report with respect to going concern.

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

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

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

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

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

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 2022 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 in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to legislation specific to the veterinary sector in which the Group operates (such as the Veterinary Medicines Regulations 2013), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and tax legislation. 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;
- Obtaining direct confirmations from 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, or contain certain unusual key words such as fraud; and
- Assessing key judgements and estimates made by management for evidence of inappropriate bias. The key judgements and estimates for the Group relate to the carrying value of investments, the carrying value of intangible assets and the classification on non-underlying items.

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

KATE FINN
(SENIOR STATUTORY AUDITOR)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

15 May 2023

Consolidated Income Statement

YEAR ENDED 31 DECEMBER 2022

		For the year ended 31 December					
	Notes	**Underlying 2022 £'000**	**Non-Underlying (note 4) 2022 £'000**	**Total 2022 £'000**	Underlying 2021 £'000	Non-Underlying (note 4) 2021 £'000	Total 2021 £'000
Revenue		**71,616**	**–**	**71,616**	74,024	–	74,024
Cost of sales	6.1	**(30,957)**	**–**	**(30,957)**	(34,606)	–	(34,606)
Gross profit		**40,659**	**–**	**40,659**	39,418	–	39,418
Research and development expenses	6.2	**(2,363)**	**(667)**	**(3,030)**	(2,181)	(951)	(3,132)
Selling and marketing expenses	6.3	**(13,547)**	**–**	**(13,547)**	(12,277)	–	(12,277)
General and administrative expenses	6.4	**(15,000)**	**(4,013)**	**(19,013)**	(14,482)	(4,580)	(19,062)
Impairment losses		**–**	**(918)**	**(918)**	–	(2,761)	(2,761)
Net other operating income/(expense)	6.5	**4**	**(919)**	**(915)**	115	(312)	(197)
Operating profit/(loss)		**9,753**	**(6,517)**	**3,236**	10,593	(8,604)	1,989
Finance costs	6.8	**(1,752)**	**–**	**(1,752)**	(2,613)	–	(2,613)
Finance income	6.9	**1,110**	**–**	**1,110**	1,757	–	1,757
Finance costs net		**(642)**	**–**	**(642)**	(856)	–	(856)
Share of net loss of joint venture accounted for using the equity method	11	**(52)**	**–**	**(52)**	(188)	–	(188)
Profit/(loss) before tax		**9,059**	**(6,517)**	**2,542**	9,549	(8,604)	945
Income tax expense	6.10	**(1,487)**	**910**	**(577)**	(2,325)	1,303	(1,022)
Profit/(loss) for the period		**7,572**	**(5,607)**	**1,965**	7,224	(7,301)	(77)
Net profit/(loss) attributable to:							
The owners of the parent		**7,572**	**(5,607)**	**1,965**	7,224	(7,301)	(77)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:							
Basic earnings per share	7	**12.6p**	**–**	**3.3p**	12.0p	–	(0.1p)
Diluted earnings per share	7	**12.5p**	**–**	**3.2p**	12.0p	–	(0.1p)

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 categorised as 'non-underlying' and 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 2022

	For the year ended 31 December	
	2022 £'000	2021 £'000
Profit/(loss)	**1,965**	(77)
Other comprehensive income/(expense)		
Exchange differences on translation of foreign operations	**488**	(638)
Other comprehensive income/(expense), net of tax	**488**	(638)
Total comprehensive income/(expense) for the year, net of tax	**2,453**	(715)
Total comprehensive income/(expense) attributable to:		
The owners of the parent	**2,453**	(715)

* May be reclassified subsequently to profit and loss

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2022

	Notes	As at 31 December 2022 £'000	restated* 2021 £'000
Assets			
Non-current assets			
Goodwill	8	**50,853**	50,337
Intangible assets	9	**25,283**	30,213
Property, plant and equipment	10	**448**	132
Right-of-use-assets	23	**2,924**	1,658
Investments in joint ventures	11	**1,305**	1,290
Deferred tax assets	6.10	**3,567**	1,963
Other financial assets		**70**	90
Other non-current assets	13	**–**	24
Total non-current assets		**84,450**	85,707
Current assets			
Inventories	12	**13,474**	10,328
Trade receivables	13	**13,568**	7,135
Other current assets	13	**715**	1,200
Cash and cash equivalents	14	**6,035**	5,633
Total current assets		**33,792**	24,296
Total assets		**118,242**	110,003
Liabilities			
Current liabilities			
Lease liabilities	23	**(852)**	(723)
Trade payables	15	**(15,497)**	(10,021)
Current tax liabilities	6.10	**(623)**	(471)
Accrued charges and contract liabilities	19	**(1,276)**	(1,083)
Other current liabilities	20	**(4,027)**	(2,156)
Total current liabilities		**(22,275)**	(14,454)
Non-current liabilities			
Borrowings	16	**(8,426)**	(9,243)
Lease liabilities	23	**(2,159)**	(996)
Deferred tax liabilities	6.10	**(4,773)**	(4,271)
Contract liabilities	19	**(372)**	(675)
Provisions	17	**(340)**	(408)
Other non-current liabilities	18	**(911)**	(1,157)
Total non-current liabilities		**(16,981)**	(16,750)
Total Liabilities		**(39,256)**	(31,204)
Net assets		**78,986**	78,799
Equity			
Share capital	22	**12,019**	12,019
Share premium	22	**132,798**	132,798
Reverse acquisition reserve		**(56,762)**	(56,762)
Accumulated losses	22	**(11,977)**	(11,676)
Other reserves		**2,908**	2,420
Equity attributable to the owners of the parent		**78,986**	78,799
Total equity		**78,986**	78,799

* Restated as detailed in Note 29

The accompanying notes on pages 86 to 130 form an integral part of these consolidated financial statements.

The financial statements on pages 80 to 130 were approved by the board of directors and authorised for issue on 15 May 2023. 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 2022

	Attributable to the owners of the parents					
	Share capital £'000	Share premium £'000	Accumulated losses £'000	Reverse acquisition reserve £'000	Other reserve £'000	Total equity £'000
At 1 January 2022	**12,019**	**132,798**	**(11,676)**	**(56,762)**	**2,420**	**78,799**
Net profit	–	–	1,965	–	–	1,965
Other comprehensive income	–	–	–	–	488	488
Total comprehensive income	–	–	1,965	–	488	2,453
Dividends paid	–	–	(2,644)	–	–	(2,644)
Share-based payments	–	–	378	–	–	378
At 31 December 2022	**12,019**	**132,798**	**(11,977)**	**(56,762)**	**2,908**	**78,986**

	Attributable to the owners of the parents					
	Share capital £'000	Share premium £'000	Accumulated losses £'000	Reverse acquisition reserve £'000	Other reserve £'000	Total equity £'000
At 1 January 2021	12,012	132,729	(9,445)	(56,762)	3,058	81,592
Loss of the year	–	–	(77)	–	–	(77)
Other comprehensive expense	–	–	–	–	(638)	(638)
Total comprehensive expense	–	–	(77)	–	(638)	(715)
Dividends paid	–	–	(2,403)	–	–	(2,403)
Exercise of share options	7	69	–	–	–	76
Share-based payments	–	–	249	–	–	249
At 31 December 2021	12,019	132,798	(11,676)	(56,762)	2,420	78,799

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 2022

	Notes	For the year ended 31 December 2022 £'000	restated* 2021 £'000
Operating activities			
Profit before tax		**2,542**	945
Non-cash and operational adjustments			
Share in net loss of joint venture	11	**52**	188
Depreciation of property, plant and equipment	10/23	**1,118**	1,185
Amortisation of intangible assets	9	**6,685**	7,217
Impairment of intangible assets	9	**918**	2,761
Share-based payment expense	26	**542**	249
Gain on disposal of intangible assets		**(146)**	(396)
Non-cash movement in provisions		**202**	120
Movement allowance for bad debt and inventories		**105**	760
Finance income		**(260)**	(459)
Finance expense		**1,001**	1,221
Impact of foreign currencies		**(235)**	88
Fair value adjustment contingent consideration		**140**	(17)
Non-cash movement in IFRS16 liability		**(6)**	–
Movements in working capital			
(Increase)/decrease in trade receivables		**(5,875)**	3,541
(Increase)/decrease in inventories		**(2,735)**	1,356
Increase/(decrease) in payables		**6,706**	(2,698)
Income tax paid		**(1,325)**	(2,038)
Net cash flow from operating activities		**9,429**	14,023
Investing activities			
Purchase of property, plant and equipment	10	**(407)**	(58)
Purchase of intangible assets	9	**(2,540)**	(3,157)
Proceeds from the sale of intangible assets		**153**	540
Capital contribution in joint venture	11	**(325)**	(289)
Net cash flow used in investing activities		**(3,119)**	(2,964)
Financing activities			
Repayment of loans and borrowings		**(1,320)**	(6,952)
Repayment of IFRS 16 lease liability	23	**(996)**	(1,024)
Receipts from issue of share capital		**–**	76
Dividends paid	22	**(2,644)**	(2,403)
Interest paid		**(444)**	(447)
Other financial expense		**(292)**	(213)
Net cash flow used in financing activities		**(5,696)**	(10,963)
Net increase of cash and cash equivalents		**614**	96
Cash and cash equivalents at beginning of year	14	**5,633**	5,265
Exchange rate differences on cash and cash equivalents		**(212)**	272
Cash and cash equivalents at end of year	14	**6,035**	5,633

	Notes	For the year ended 31 December 2022 £'000	restated* 2021 £'000
Reconciliation of net cash flow to movement in net debt			
Net increase in cash and cash equivalents in the year		**614**	96
Cash flow from decrease in debt financing		**1,320**	6,952
Foreign exchange differences on cash and borrowings		**(715)**	1,146
Movement in net debt during the year		**1,219**	8,194
Net debt at the start of the year		**(5,330)**	(13,616)
Movement in lease liabilities during the year	23	**(1,291)**	92
Net debt at the end of the year		**(5,402)**	(5,330)

* Restated as detailed in Note 29

Notes to the Consolidated Financial Statements

YEAR ENDED 31 DECEMBER 2022

1. Financial information

Animalcare Group plc ("the Company") is a public company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is domiciled in the United Kingdom. The address of its registered office is Moorside, Monks Cross, York, YO32 9LB. 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 in accordance with UK-adopted international accounting standards ("IFRS") and the applicable legal requirements of the Companies Act 2006 under the historical cost convention. They have also been prepared in accordance with the requirements of the AIM Rules.

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

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

The preparation of financial statements in compliance with 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 2022 and comprise the consolidated results of the Group.

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

Going concern

The Group's financing arrangements consist of a committed revolving credit facility of €41.5m (£36.8m) and a €10.0m (£8.9m) acquisition line, the latter of which cannot be utilised to fund our operations.

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

Net debt to underlying EBITDA ratio of 3.5 times; underlying EBITDA to interest ratio of minimum 4 times; and solvency (total assets less goodwill/ total equity less goodwill) greater than 25%. As at 31 December 2022 and throughout the financial year, all covenant requirements were met with significant headroom across all three measures. The principal risks and uncertainties facing the Group are set out in the Strategic Report.

The Directors have prepared cash flow forecasts for a period of at least 12 months from the date of signing of these financial statements (the going concern assessment period). These forecasts indicate that the Group will have sufficient funds and liquidity to meet its obligations as they fall due, taking into account the potential impact of "severe but plausible" downside scenarios to factor in a range of downside revenue estimates and higher than expected inflation across our cost base, with corresponding mitigating actions. The output from these scenarios shows the Group has adequate levels of liquidity from its committed facilities and complies with all its banking covenants throughout the going concern assessment period. Accordingly, the Directors continue to adopt the going concern basis of preparation.

3. Summary of significant accounting policies

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

The Directors believe that presenting the Group's financial results on an underlying basis, which excludes non-underlying items, offers a clearer picture of business performance and hence provides useful information for shareholders. These measures are used by the Board and management for planning, internal reporting and setting Director and management incentive arrangements. In addition they are used by the investor analyst community and are aligned to our strategy and KPIs. Underlying measures are not intended to be a substitute for, or superior to, IFRS results which include non-underlying items to provide the statutory results.

Non-underlying items are items of income or expense which, because of either their nature and/or the expected frequency of the events giving rise to them, merit separate presentation and disclosure as detailed in note 4. The following key items are adjusted for in the calculation of underlying operating profit:

- Amortisation and impairment of acquired intangible assets – these items are a result of past transactions, principally the reverse acquisition of Animalcare Group plc and the pre-reverse acquisition of Esteve, and therefore although they are recorded as a cost to the Group each financial year, do not reflect the current or future business performance and cash outflows. Impairment is classified as non-underlying due to the significance and one-off nature.
- Acquisition and integration costs – these items principally relate to acquisition and subsequent integration activity which we view as strategic in nature, and therefore they are excluded from underlying EBITDA, hence underlying operating profit, as this is principally used to manage the performance of our operations
- Restructuring costs – the Group has recognised restructuring costs in a number of financial years since the reverse acquisition in 2017 and we expect such costs will likely arise in future as the Group develops and evolves. Certain of the more significant historic restructuring activities have spanned financial years, while in more recent years, notwithstanding costs are presented in the current and prior period, the costs are associated with separate and unrelated organisational restructuring and rationalisation activities. As such, the specific nature of the activities will be explained in note 4 or its future equivalent. As with acquisition and integration costs, we consider restructuring costs strategic in nature, and therefore they are excluded from underlying EBITDA, hence underlying operating profit, as this is principally used to manage the performance of our operations
- Gains and losses on divestment of fixed and intangible assets – the Group has made certain product divestments while undertaking a strategic review and rationalisation of our product portfolio. Gains and losses arising from such divestments are excluded from underlying results given their infrequency and non-trading nature
- Share based payments in respect of Identicare Ltd (see note 26) – while the Group continues to recognise share-based payment costs in relation to the Long-Term-Incentive-Plan within its underlying results, the charge in relation to the new Identicare share-based payment arrangement incepted on 1 January 2022 has been treated as non-underlying. The key driver of this treatment and presentation is that the growth shares issued deliver value to the holder based on either the sale of Identicare, or after five years, the market value via a put option. As such, the plan is connected to the future value of Identicare and not trading (as the Group does not have a history of trading investments). In addition, as part of the arrangement is treated as cash-settled, this will likely create volatility in our results arising from movements in the fair value of this arrangement.

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2022

3. Summary of significant accounting policies (CONTINUED)

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 31 December 2021 and 2022. Differences resulting from the translation of the financial statements of the parent and the subsidiaries are recognised in other comprehensive income as "Exchange differences on translation of foreign operations".

FOREIGN CURRENCY TRANSACTIONS

Transactions denominated in foreign currencies are translated into functional currency at spot rate at the transaction date. 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. Repair and maintenance costs are recognised in the income statement as incurred.

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

• Equipment	5 years
• Office furniture and office equipment	3–5 years or lease term if shorter
• Leasehold improvements	5 years or lease term if shorter
• Warehouse and office fittings	5–10 years

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

Leases

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

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

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

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

To determine the incremental borrowing rate, the Group:

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

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

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

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

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The term varies between four to five years.

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.

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 attributable to one cash-generating unit for the purpose of impairment testing, being the lowest level at which business operations are monitored for internal management purposes.

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2022

3. Summary of significant accounting policies (CONTINUED)

Intangible assets

Intangible assets comprise the acquired product portfolio's, Research & Development assets, licensing and distribution rights, customers acquired in connection with business combinations, product portfolios and product development costs, capitalised software and assets under construction related to intangible assets.

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
• Research & Development assets	10 years

Intangible assets not yet available for use are assessed annually for impairment. Assets under construction are 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".

Further, the Group has acquired certain intangible assets related to licenses with a fixed and variable consideration contingent upon the realisation of certain milestones and sales volumes. Due to the recognition of this license asset, the group extends its accounting policies on intangible assets as follows:

The Group recognises an intangible asset for licenses obtained initially measured at the fixed consideration paid. The variable consideration subject to the realisation of the milestones will only be recognised when the milestones are met and will be recognised as an addition to the intangible license asset to the extent the milestone represents additional license consideration. Once market authorisation is obtained, the Group will start amortising the intangible asset over its useful life and recognise any future milestone payments as a cost of sale.

The Group recognises an intangible asset for licenses obtained initially measured at the fixed consideration paid. The variable consideration subject to the realisation of the milestones will only be recognised when the milestones are met and will be recognised as an addition to the intangible license asset. Once market authorisation is obtained, the Group will start amortising the intangible asset over its useful life and recognise any future milestone payments as a cost of sale.

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

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

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

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

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

Investments in joint ventures

The Group carries an investment in a joint venture STEM Animal Health Inc. ('STEM'). The Group's investments in its joint venture are 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.

3. Summary of significant accounting policies (CONTINUED)

Financial assets

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

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

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

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

FINANCIAL ASSETS MEASURED AT AMORTISED COST

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

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

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

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group has 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 11 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 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.

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.

For cash-settled share-based payments, a liability is recognised for the goods and services acquired, measured initially at the fair value of the liability. At the balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the period. Shares already in issue subject to potential redemption by the Group are held as liabilities, measured at the present value of the redemption amount.

Details of the arrangements in place are given in note 26, along with details of the derivation of fair value.

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.

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.

3. Summary of significant accounting policies (CONTINUED)

Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration and excludes intra-group sales and value added and similar taxes. The primary performance obligation is the transfer of goods to the customer. Revenue from the sale of goods is recognised when control of the goods is transferred to the customer, at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods.

As sales arrangements differ from time to time (for example by customer and by territory), each arrangement is reviewed to ensure that revenue is recognised when control of the goods has passed to the customer. This review and the corresponding recognition of revenue encompass a number of factors which includes, but is not limited to, reviewing delivery arrangements and whether the buyer has accepted title, recognising revenue at the point at which full title has passed.

Provision for rebates and discounts is reflected in the transaction price at the point of recognition to the extent that it is highly probable there will not be a significant reversal. The methodology and assumptions used to estimate rebates and discounts are based on contractual and legal obligations, and historical trends and averages based on the last 12 months.

SALES OF SERVICES

The Group recognises service revenue by reference to the stage of completion. As there is no contractual restriction on the amount of times the customer makes use of the services, at the commencement of the contract, it is not possible to determine how many times the customer will make use of the services, nor does historical evidence provide indications of any future pattern of use. As such, income is recognised evenly over the term of the contract. Service sales includes commission income which is recognised at a point in time.

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

Interest income

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

Financing costs

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

Other financial income and expenses

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

Taxes

CURRENT INCOME TAX

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

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

DEFERRED TAX

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

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

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

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

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

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their 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 2022

Standards and interpretations applicable for the annual period beginning on or after 1 January 2022:

- Amendment to IFRS 16 Leases: COVID-19-Related Rent Concessions beyond 30 June 2021 (applicable for annual periods beginning on or after 1 April 2021)
- Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use (applicable for annual periods beginning on or after 1 January 2022)
- 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)
- Amendments to IFRS 3 Business Combinations: Reference to the Conceptual Framework (applicable for annual periods beginning on or after 1 January 2022)
- Annual Improvements to IFRS Standards 2018–2020 (applicable for annual periods beginning on or after 1 January 2022)

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 2022

The IFRS accounting standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s financial statements are disclosed below. The Group intends to adopt these standards and interpretations, if applicable, when they become effective. These new standards will have no material impact on the Group’s financial statements.

- 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 2024 or later, but not yet endorsed in the UK)
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (applicable for annual periods beginning on or after 1 January 2023)

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2022

3. Summary of significant accounting policies (CONTINUED)

- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (applicable for annual periods beginning on or after 1 January 2023)
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (applicable for annual periods beginning on or after 1 January 2023)
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (applicable for annual periods beginning on or after 1 January 2024, but not yet endorsed in the UK)

Significant accounting judgements

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 costs 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 2022, the Group had £2,565k (2021: £1,749k) of tax losses carried forward and other tax credits such as investment tax credits and notional interest deduction. These losses relate to the subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group.

IMPAIRMENT OF GOODWILL

The Group has goodwill for a total amount of £50,853k (2021: £50,337k) which has been subject to an impairment test. The goodwill is tested for impairment based on the value in use (VIU). The key assumptions for the VIU calculations are disclosed and further explained in Note 8.

STEM ANIMAL HEALTH INC. – JOINT CONTROL

On 28 September 2020 the Group announced that it has entered into an agreement with Canada-based biotech company Kane Biotech Inc. under which the parties formed

STEM Animal Health Inc. ("STEM"), a company dedicated to treating biofilm-related ailments in animals. The Group acquired, via its 100% subsidiary Ecuphar NV, 33.34% in STEM for a cash consideration of CA$3m, of which CA$1.5m was already paid in prior years, CA$0.5m during the financial year and CA$1.0m still payable over 20 months.

The Group has a call option, for a period until September 28 2026, to acquire an additional 18.0% in STEM for CA$4 million. Based on the existing voting rights (33.34%) and other contractual arrangements, the Group does not have power over the investee. Accordingly, the investment in STEM is accounted through the equity method in the consolidated financial statements.

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

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

In the prior year, the Group made its first license payment of CA$0.5m. The following payment is due in 2023, resulting in a short-term payment of CA$692k or £425k, and a long-term payable of CA$748k or £459k.

Further, for the capital contribution, the outstanding short-term liability is £292k (2021: £277k), shown in the balance sheet as other current liability. The outstanding long-term liability is £254k (2021: £502k), shown in the balance sheet as other non-current liability.

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

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

- STEM established during 2020 with a global license over Kane Biotech's existing range of animal health oral care products, where Kane grants STEM an irrevocable, exclusive, fully paid up, royalty-free right and license in the market and to develop, manufacture and commercialise the products and to practice the licensed intellectual property.
- Management is of the view that the Group doesn't have control over STEM, exposure, or rights, to variable returns from its involvement with STEM. Management considers that the call option is not substantive and not favourable as of 31 December 2022 in terms of future benefits and the value attached to the option.
- The Group will continuously and on an annual basis monitor whether the call option is substantive or not. As such, it is possible that, in the future, management may have to conclude that the potential voting rights become substantive and that the potential voting rights together with the existing voting rights provide the Group control over STEM.
- Management is of the view that based on the nature of the pre-agreed decisions which require special consent listed in the shareholders' agreement, both the Group and Kane have joint control over STEM.
- It was agreed between both parties that STEM will benefit from predetermined mark-up on the products STEM produce, which will be distributed to both parties through dividends and that the Group doesn't have access to STEM assets or to incur liabilities on behalf of STEM. Accordingly, management is of the view that, based on the IFRS 11 – Joint Arrangement flow chart, the nature of the arrangement consists of a joint venture rather than joint operations.

Significant accounting estimates and assumptions

CASH-SETTLED AND EQUITY-SETTLED SHARE- BASED PAYMENT ARRANGEMENTS

The Group has entered into an arrangement whereby growth shares have been issued in a subsidiary with ties to employment, and which could be obligated to be bought back by the Group in certain instances. The Directors have determined that this share-based payment arrangement is partially cash-settled and partially equity-settled. Details of the arrangement and its valuation are provided in note 26.

4. Non-underlying items

	For the year ended 31 December 2022 £'000	2021 £'000
Amortisation and impairment of acquisition related intangibles		
Classified within research and development expenses	**667**	951
Classified within general and administrative expenses	**3,794**	4,580
Impairment losses	**895**	2,761
Total amortisation and impairment of acquisition-related intangibles	**5,356**	8,292
Restructuring costs	**282**	17
Acquisition and integration costs	**335**	188
Impairment on intangibles	**23**	–
Divestments and business disposals	**(146)**	(462)
COVID-19	**2**	11
Long-term incentive plan (see Note 26)	**220**	–
UK and Spain office relocation costs	**182**	111
Other non-underlying items	**263**	447
Total non-underlying items before taxes	**6,517**	8,604
Tax impact	**(910)**	(1,303)
Total non-underlying items after taxes	**5,607**	7,301

The following table shows the breakdown of non-underlying items before taxes by category for 2022 and 2021:

	For the year ended 31 December 2022 £'000	2021 £'000
Classified within research and development expenses	**667**	951
Classified within general and administrative expenses	**4,013**	4,580
Classified within net other operating (income)/expense	**919**	312
Impairment losses	**918**	2,761
Total non-underlying items before taxes	**6,517**	8,604

The 2022 £4,013k general and administrative expenses principally encompass amortisation and impairment of acquisition related intangibles of £3,794k plus the £220k long-term incentive plan charge.

Non-underlying items totalling £6,516k (2021: £8,604k) relating to profit before tax have been incurred in the year. These principally comprise:

- Amortisation and impairment of acquisition-related intangibles of £5,356k (2021: £8,292k). The current year charge primarily comprises amortisation in relation to the reverse acquisition of Ecuphar NV and previous acquisitions made by Ecuphar NV of £4,461k (2021: £5,531k) and a non-cash impairment charge of Research & Development assets (£895k; 2021: £ 2,761k) that formed part of the acquired development pipeline, the principal driver for which was manufacturing challenges that have significantly impacted the timing and costs to resume supply with appropriate commercial returns. The assets in question are now written down to nil. Impairment losses have been presented separately on the face of the consolidated income statement, however the entire amount of £918k would be attributable to net other operating expenses.
- Expenses relating to restructuring costs of £282k (2021: £17k) principally relate to the closure of our warehouse in Belgium and subsequent out-sourcing to a third-party logistics provider, together with costs associated with the reorganisation of our UK operations following the carve-out of Identicare in 2021.

- Acquisition and integration costs of £335k (2021: £188k) primarily relate to costs associated with manufacturing transfers and the cessation of production animals sales in Benelux.
- Costs associated with the relocation of our Spain and UK operations totalling £182k (2021: £111k) include one-off move costs and dilapidation provisions.

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

5. Segment information

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

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

The following table summarises the segment reporting from continuing operations for 2022 and 2021. As management's internal reporting structure is principally revenue and profit-based, the reporting information does not include assets and liabilities by segment and is as such not presented per segment.

	For the year ended 31 December	
	2022 £'000	2021 £'000
Revenues	**71,616**	74,024
Gross Profit	**40,659**	39,418
Gross Profit %	**57%**	53%
Segment underlying EBITDA	**13,131**	13,455
Segment underlying EBITDA %	**18%**	18%
Segment EBITDA	**11,993**	13,143
Segment EBITDA %	**17%**	18%

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

	For the year ended 31 December	
	2022 £'000	2021 £'000
Underlying EBITDA	**13,131**	13,455
Non-recurring expenses (excluding amortisation and impairment)	**(1,138)**	(312)
EBITDA	**11,993**	13,143
Depreciation, amortisation and impairment	**(8,757)**	(11,154)
Operating profit	**3,236**	1,989
Finance costs	**(1,752)**	(2,613)
Finance income	**1,110**	1,757
Share of net loss of joint venture accounted for using the equity method	**(52)**	(188)
Income taxes	**(1,637)**	(1,371)
Deferred taxes	**1,060**	349
Profit/(loss) for the period	**1,965**	(77)

5. Segment information (CONTINUED)

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

	As at 31 December	
	2022 **£'000**	2021 £'000
Belgium	**7,510**	8,834
Spain	**3,695**	2,811
Portugal	**4,234**	4,061
UK	**59,184**	62,157
Other	**6,260**	5,881
Non-current assets excluding deferred tax assets	**80,883**	83,744

Revenue by product category

	For the year ended 31 December	
	2022 **£'000**	2021 £'000
Companion animals	**50,217**	51,326
Production animals	**15,674**	16,980
Equine	**5,698**	5,637
Other	**27**	81
Total	**71,616**	74,024

Revenue by geographical area

	For the year ended 31 December	
	2022 **£'000**	2021 £'000
Belgium	**3,354**	4,023
The Netherlands	**1,627**	1,769
United Kingdom	**15,257**	15,471
Germany	**10,056**	10,373
Spain	**19,724**	21,035
Italy	**8,404**	8,885
Portugal	**4,215**	4,193
European Union – other	**7,199**	6,971
Asia	**494**	681
Middle East Africa	**17**	1
Other	**1,269**	622
Total	**71,616**	74,024

Revenue by category

	For the year ended 31 December	
	2022 **£'000**	2021 £'000
Product sales	**69,642**	72,651
Services sales	**1,974**	1,373
Total	**71,616**	74,024

Product revenue is recognised when the performance obligation is satisfied at a point in time. Service revenue is recognised by reference to the stage of completion. Services sales includes £407k (2021: £593k) of commission income recognised at a point in time.

6. Income and expenses

6.1. Cost of sales

Cost of sales includes the following expenses:

	For the year ended 31 December	
	2022 £'000	2021 £'000
Purchase of goods and services	**29,780**	33,016
Stock write off	**462**	154
Movement in stock provision	**(349)**	227
Payroll expenses	**174**	439
Other expenses	**890**	770
Total	**30,957**	34,606

6.2. Research and development expenses

Research and development expenses include the following:

	For the year ended 31 December	
	2022 £'000	2021 £'000
Amortisation and depreciation	**1,239**	1,681
Payroll expenses	**1,403**	1,361
Other R&D expenses	**388**	90
Total	**3,030**	3,132

6.3. Selling and marketing expenses

Selling and marketing expenses include the following:

	For the year ended 31 December	
	2022 £'000	2021 £'000
Transport costs of sold goods	**1,023**	823
Promotion costs	**2,035**	2,792
Payroll expenses	**9,220**	7,545
Amortisation and depreciation	**1**	2
Other	**1,268**	1,115
Total	**13,547**	12,277

6.4. General and administrative expenses

General and administrative expenses include the following:

	For the year ended 31 December	
	2022 £'000	2021 £'000
Amortisation and depreciation	**6,561**	6,705
Payroll expenses	**4,904**	4,430
Other	**7,548**	7,927
Total	**19,013**	19,062

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

6. Income and expenses (CONTINUED)

6.5. Net other operating expenses

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

`	For the year ended 31 December 2022 £'000	2021 £'000
Re-invoicing of costs	**(8)**	(53)
Non-cash movement in IFRS16 liability	**(6)**	(16)
Other operating income	**(243)**	(441)
Other operating expenses	**1,172**	707
Total	**915**	197

Other operating expenses of £1,172k (2021: £707k) principally relate to the non-underlying items, excluding amortisation and impairment of acquisition-related intangibles, disclosed in note 4.

Other operating income in 2022 and 2021 mainly relates to income on sale of several product divestments in connection with the cessation of the production animals range in Benelux.

6.6. Expenses by nature

	For the year ended 31 December 2022 £'000	2021 £'000
Other operating lease rentals / short-term leases	**946**	646
Employee expenses	**15,527**	13,336
Depreciation and amortisation	**7,803**	8,402
Transport costs sold goods	**1,023**	823
Promotion costs	**2,035**	2,643
Other operating expense – note 6.5	**915**	197
Impairment losses	**918**	2,761
Other expenses	**8,256**	8,621
Total expenses	**37,423**	37,429

6.7. Payroll expenses

The following table shows the breakdown of payroll expenses for 2022 and 2021:

	For the year ended 31 December 2022 £'000	2021 £'000
Wages and salaries	**13,450**	11,775
Social security costs	**2,002**	1,788
Other pension costs	**249**	212
Total	**15,701**	13,775
The monthly average number of employees during the year was as follows:		
Sales and administration	**219**	207
Distribution	**1**	4

The payroll expenses for the year are impacted by the share-based payments amounting to £204k (2021: £149k). For more information refer to note 26.

Director's remuneration is detailed in the Director's remuneration report in the Governance section.

6.8. Finance costs

Finance costs include the following elements:

	For the year ended 31 December	
	2022 £'000	2021 £'000
Interest expense	**444**	447
Foreign currency losses	**985**	1,912
Unwind of discount on other liabilities	**124**	85
Other finance costs	**199**	169
Total	**1,752**	2,613

6.9. Finance income

Finance income includes the following elements:

	For the year ended 31 December	
	2022 £'000	2021 £'000
Foreign currency exchange gains	**1,060**	1,754
Income from financial assets	**39**	1
Other finance income	**11**	2
Total	**1,110**	1,757

6.10. Income tax

CURRENT TAX LIABILITIES

The tax payable relates to the income taxes of £623k (2021: £471k).

INCOME TAX EXPENSE

The following table shows the breakdown of the tax expense for 2022 and 2021:

	For the year ended 31 December	
	2022 £'000	2021 £'000
Current tax charge	**(1,685)**	(1,371)
Tax adjustments in respect of previous years	**48**	–
Total current tax charge	**(1,637)**	(1,371)
Deferred tax – origination and reversal of temporary differences	**774**	458
Deferred tax – adjustments in respect of previous years	**286**	(109)
Total deferred tax credit	**1,060**	349
Total tax expense for the year	**(577)**	(1,022)

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2022

6. Income and expenses (CONTINUED)

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

	For the year ended 31 December	
	2022 £'000	2021 £'000
Profit before tax	**2,542**	945
Share of net loss of joint ventures	**52**	188
Profit before tax, excl. Share in net loss of joint venture	**2,594**	1,133
Tax at 19.00% (2021: 19.00%)	**(493)**	(215)
Effect of:		
Overseas tax rates	**(389)**	(386)
Non-deductible expenses	**(99)**	(180)
Adjustment to use of tax losses previously not recognised	**(24)**	76
Changes in statutory enacted tax rate	**93**	(273)
Tax adjustments in respect of previous year	**334**	(109)
Non-recognition of deferred tax on current year losses	**(21)**	(105)
Usage of formerly non-recognised deferred tax assets on timing differences	**15**	50
R&D relief	**53**	200
Other	**(46)**	(80)
Income tax expense as reported in the consolidated income statement	**(577)**	(1,022)

The tax credit of £910k (2021: £1,303k) shown within "non-underlying items" on the face of the consolidated income statement, which forms part of the overall tax charge of £577k (2021: £1,022k), relates to the items in note 4.

The tax rates used for the 2022 and 2021 reconciliation above are the corporate tax rates of 25.00% (Belgium), 19.00% (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.

Deferred taxes at the balance sheet date have been measured using the UK enacted tax rate, being 25% from 1 April 2023.

DEFERRED TAX

(a) Recognised deferred tax assets and liabilities

	Assets		Liabilities		Total	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000
Goodwill	**–**	(125)	**(1,290)**	(923)	**(1,290)**	(1,048)
Intangible assets	**329**	243	**(2,722)**	(3,435)	**(2,393)**	(3,192)
Property, plant and equipment	**–**	(186)	**(707)**	(195)	**(707)**	(381)
Financial fixed assets	**1**	1	**–**	–	**1**	1
Inventory	**–**	(11)	**(54)**	(40)	**(54)**	(51)
Trade and other receivables/(payables)	**71**	94	**–**	59	**71**	153
Borrowings	**565**	182	**–**	223	**565**	405
Provisions	**4**	3	**–**	–	**4**	3
Accruals and deferred income	**32**	13	**–**	40	**32**	53
Tax losses carried forward	**2,565**	1,749	**–**	–	**2,565**	1,749
Total	**3,567**	1,963	**(4,773)**	(4,271)	**(1,206)**	(2,308)

(b) Movements during the year

Movement of deferred taxes during 2022:

	Balance as at 1 January 2022 £'000	Recognised in income £'000	Foreign exchange adjustments £'000	Balance as at 31 December 2022 £'000
Goodwill	(1,048)	(176)	(66)	**(1,290)**
Intangible assets	(3,192)	782	17	**(2,393)**
Property, plant and equipment	(381)	(296)	(30)	**(707)**
Financial fixed assets	1	–	–	**1**
Inventory	(51)	–	(3)	**(54)**
Trade and other receivables/(payables)	153	(62)	(20)	**71**
Accruals and deferred income	53	(23)	2	**32**
Borrowings	405	133	27	**565**
Provisions	3	–	1	**4**
Tax losses carry forward and other tax benefits	1,749	702	114	**2,565**
Net deferred tax	(2,308)	1,060	42	**(1,206)**

Movement of deferred taxes during 2021:

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

TAX LOSSES

The Group has unused tax losses, tax credits and notional interest deduction available in an amount of £11,361k for 2022 (2021: £7,435k).

Deferred tax assets have been recognised on available tax losses carried forward for some legal entities, resulting in amounts recognised of £ 2,565k (2021: £ 1,749k). This was based on management's estimate that sufficient positive taxable profits will be generated in the near future for the related legal entities with fiscal losses. It is expected that £32k of the deferred tax asset will be recovered within the next 12 months and the remaining £2,533k of the deferred tax asset will be recovered after 12 months.

The non-recognised deferred tax assets of Ecuphar NV on temporary differences decreased by £15k in 2022 (2021: £50k).

7. Earnings per share

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

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

Profit/(loss) for the period

	As at 31 December			
	2022 Underlying £'000	2021 Underlying £'000	**2022 Total £'000**	2021 Total £'000
Net profit/(loss) for the year	**7,572**	7,224	**1,965**	(77)
Net profit/loss attributable to ordinary equity holders of the parent adjusted for the effect of dilution	**7,572**	7,224	**1,965**	(77)

Average number of shares (basic and diluted)

	As at 31 December			
Number of shares	**2022 Underlying**	2021 Underlying	**2022 Total**	2021 Total
Weighted average number of ordinary shares for basic earnings per share	**60,175,407**	60,081,167	**60,175,407**	60,081,167
Dilutive potential ordinary share options	**629,087**	376,836	**629,087**	376,836
Weighted average number of ordinary shares adjusted for effect of dilution	**60,804,494**	60,458,003	**60,804,494**	60,458,003

Basic earnings/(loss) per share

	As at 31 December			
	2022 Underlying in pence	2021 Underlying in pence	**2022 Total in pence**	2021 Total in pence
From operations attributable to the ordinary equity holders of the company	**12.6**	12.0	**3.3**	(0.1)
Total basic earnings per share attributable to the ordinary equity holders of the company	**12.6**	12.0	**3.3**	(0.1)

Diluted earnings/(loss) per share

	As at 31 December			
	2022 Underlying in pence	2021 Underlying in pence	**2022 Total in pence**	2021 Total in pence
From operations attributable to the ordinary equity holders of the Company	**12.5**	12.0	**3.2**	(0.1)
Total diluted earnings per share attributable to the ordinary equity holders of the Company	**12.5**	12.0	**3.2**	(0.1)

8. Goodwill

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

	As at 31 December	
	2022 £'000	2021 £'000
CGU: Pharmaceuticals	**50,853**	50,337
Total	**50,853**	50,337

The changes in the carrying value of the goodwill can be presented as follows for the years 2022 and 2021:

	Total £'000
As at 1 January 2021	50,988
Currency translation	(651)
As at 31 December 2021	50,337
As at 1 January 2022	**50,337**
Currency translation	516
As at 31 December 2022	**50,853**

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 more significantly following the reverse acquisition of Animalcare Group plc in 2017 which gave rise to goodwill of £41,048k.

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

	2022	2021
Discount rate (pre-tax) %	**14.2**	11.8
Growth rate (in perpetuity) %	**2.0**	1.9

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, using the long-term growth rate, beyond this. The cash flow forecasts assume revenue and profit growth in line with our strategic priorities. Further, we have assessed the potential impact of climate change, with reference to our principal risks and the environmental disclosures made in the Sustainability report and consider that the impact on the valuation of goodwill is limited.

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

A 1.0% increase in discount rates would cause the value in use of the CGU to reduce by £15.5m 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 £11.6m but would not give rise to an impairment.

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2022

9. Intangible assets

The changes in the carrying value of the intangible assets can be presented as follows for the years 2022 and 2021:

	Research & Development assets £'000	Patents, distribution rights and licenses £'000	Product portfolios and product development costs £'000	Capitalised software £'000	Assets under construction* £'000	As restated Total* £'000
Acquisition value/cost						
As at 1 January 2021	18,655	19,266	37,616	2,149	51	77,737
Additions	1,247	–	1,030	1,080	499	3,856
Disposals	(4,934)	(57)	(134)	(20)	(43)	(5,188)
Transfers	(2,195)	–	2,195	–	–	–
Currency translation	(327)	(961)	(1,140)	(119)	(13)	(2,560)
As at 31 December 2021 (restated*)	12,446	18,248	39,567	3,090	494	73,845
Additions	**719**	**–**	**603**	**1,218**	**–**	**2,540**
Disposals	**(982)**	**–**	**(90)**	**(55)**	**(4)**	**(1,131)**
Transfers	**375**	**–**	**–**	**–**	**(375)**	**–**
Currency translation	**241**	**760**	**978**	**146**	**12**	**2,137**
As at 31 December 2022	**12,799**	**19,008**	**41,058**	**4,399**	**127**	**77,391**
Amortisation						
As at 1 January 2021	(5,255)	(13,304)	(19,938)	(1,377)	–	(39,874)
Amortisation	(1,387)	(1,897)	(3,303)	(630)	–	(7,217)
Disposals	4,211	57	46	55	–	4,369
Impairments	(2,671)	–	(77)	(13)	–	(2,761)
Currency translation	147	770	855	79	–	1,851
As at 31 December 2021 (restated*)	(4,955)	(14,374)	(22,417)	(1,886)	–	(43,632)
Amortisation	**(1,239)**	**(1,325)**	**(3,233)**	**(888)**	**–**	**(6,685)**
Disposals	**676**	**–**	**89**	**61**	**–**	**826**
Impairments	**(868)**	**–**	**(32)**	**(18)**	**–**	**(918)**
Currency translation	**(151)**	**(693)**	**(753)**	**(102)**	**–**	**(1,699)**
As at 31 December 2022	**(6,537)**	**(16,392)**	**(26,346)**	**(2,833)**	**–**	**(52,108)**
Net carrying value						
As at 31 December 2022	**6,262**	**2,616**	**14,712**	**1,566**	**127**	**25,283**
As at 31 December 2021 (restated*)	7,491	3,874	17,150	1,204	494	30,213

* Restatement as described in note 29

Research & Development assets relate 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 R&D costs for which the capitalisation criteria are met. Patents, distribution rights and licenses 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 net book value of non-commercialised development projects is £1,513k (2021: £1,644k) split over Research & Development assets for £977k and Product Portfolios and product development costs for £328k. No amortisation was charged.

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

The total amortisation charge for 2022 is £6,685k (2021: £7,217k) which is included in lines research and development expenses, selling and marketing expenses and general and administrative expenses of the consolidated income statement. Included in the total amortisation charge is £4,461k (2021: £5,531k) relating to acquisition-related intangibles and £2,224k (2021: £1,686k) relating to other intangibles.

A total impairment charge of £918k (2021: £2,761k) was recorded during the financial year. Thereof £895k (2021: £2,761k) is related to a non-cash impairment charge of acquisition-related intangibles of Research & Development assets. Further details of this impairment are provided in note 4. In 2022, Animalcare Group plc invested in intangibles for an amount of £2,540k (2021 £3,357k).

On 24 March 2022, the Group entered into two early-stage agreements with Netherlands-based Orthros Medical, a company focused on the research and early development of VHH antibodies, also known as small single-chain antibody fragments. Under the terms of the deal, and during the period, Animalcare made upfront payments to Orthros Medical totalling €500k. These are included as intangible asset "product portfolios and product development costs". As the two licensed preclinical candidates progress, Orthros Medical may receive development, regulatory and commercial milestone payments up to a total value of €11 million, a significant proportion of which are linked to successful commercialisation. In addition, single digit royalties will be due on the net sales of the products. These payments are expected to be paid out of the Group's operating cash flow.

10. Property, plant and equipment

The changes in the carrying value of the property, plant and equipment can be presented as follows for 2022 and 2021:

	Equipment £'000	Office furniture and equipment £'000	Warehouse and office fittings £'000	Leasehold improvements £'000	As restated Total* £'000
Acquisition value/cost					
As at 1 January 2021	411	1,644	184	317	2,556
Additions	1	51	–	6	58
Disposals	(141)	(63)	(15)	–	(219)
Currency Translation	(17)	(79)	–	(21)	(117)
As at 31 December 2021 (restated*)	254	1,553	169	302	2,278
As at 1 January 2022	**254**	**1,553**	**169**	**302**	**2,278**
Additions	**99**	**166**	**142**	**–**	**407**
Disposals	**(100)**	**(97)**	**(169)**	**(32)**	**(398)**
Currency Translation	**15**	**65**	**–**	**15**	**95**
As at 31 December 2022	**268**	**1,687**	**142**	**285**	**2,382**
Depreciation					
As at 1 January 2021	(376)	(1,525)	(143)	(298)	(2,342)
Depreciation charge for the year	(19)	(75)	(19)	(6)	(119)
Disposals	130	62	13	–	205
Currency Translation	16	72	–	22	110
As at 31 December 2021 (restated*)	(249)	(1,466)	(149)	(282)	(2,146)
Depreciation charge for the year	**(11)**	**(59)**	**(21)**	**(4)**	**(95)**
Disposals	**99**	**94**	**165**	**32**	**390**
Currency Translation	**(10)**	**(59)**	**–**	**(14)**	**(83)**
As at 31 December 2022	**(171)**	**(1,490)**	**(5)**	**(268)**	**(1,934)**
Net book value					
As at 31 December 2022	**97**	**197**	**137**	**17**	**448**
As at 31 December 2021 (restated*)	5	87	20	20	132

* Restatement as described in note 29

10. Property, plant and equipment (CONTINUED)

The investment in property, plant and equipment in 2022 amounted to £407k (2021: £58k) and mainly related to the acquisitions of IT and office equipment.

The Group realised a net gain on disposal of property, plant and equipment of £390k in 2022 (2021: £205k). No impairment of property, plant and equipment was recorded in 2022.

Borrowing costs

No borrowing costs were capitalised during the year ended 31 December 2022 or 31 December 2021.

11. Investments in joint ventures

On 28 September 2020 the Group announced that it has entered into an agreement with Canada-based biotech company Kane Biotech Inc. under which the parties formed STEM Animal Health Inc. ("STEM"), a company dedicated to treating biofilm-related ailments in animals. The Group acquired, via its 100% subsidiary Ecuphar NV, 33.34% in STEM for a cash consideration of CA$3m, of which CA$1.5m was already paid in prior years, CA$0.5m during the financial year and CA$1.0m still payable over 20 months.

The Group has a call option, for a period until 28 September 2026, to acquire an additional 18% stake in STEM for CA$4 million. Based on the existing voting rights (33.34%) and other contractual arrangements, the Group does not have power over the investee. Further disclosure is provided in Note 3 Significant accounting judgements, estimates and assumptions. Accordingly, the investment in STEM is accounted for through the equity method in the consolidated financial statements.

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

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

In the prior year, the Group made its first license payment of CA$0.5m. The following payment is due in 2023, resulting in a short-term payment of CA$692k or £425k, and a long-term payable of CA$748k or £459k.

Further, for the capital contribution, the outstanding short-term liability is £292k (2021: £277k), shown in the balance sheet as other current liability. The outstanding long-term liability is £254k (2021: £502k), shown in the balance sheet as other non-current liability.

		% of ownership interest				Carrying amount	
Name of entity	Place of business/ country of incorporation	2022 %	2021 %	Nature of relationship	Measurement method	2022 £'000	2021 £'000
STEM Animal Health Inc.	Canada	**33.34%**	33.34%	Joint Venture	Equity method	**1,305**	1,290

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

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Non-current assets	321	547
Current assets	1,511	945
Total assets	**1,832**	1,492
Current liabilities	825	525
Total liabilities	**825**	525
Net assets	**1,007**	967
The below table shows the Animalcare group share at 33%:		
Net assets	336	322
Goodwill	561	561
Fair value identified intangibles	555	554
Deferred tax liability	(147)	(147)
Investment value in joint venture	**1,305**	1,290

Summarised statement of comprehensive income:

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Sales	1,581	856
Operating expenses	(1,651)	(1,338)
Financial result, net	65	55
Net loss for the year	**(5)**	(427)
The below table shows the Animalcare group share at 33.34%:		
Group share in net loss for the year	**(2)**	(142)
Depreciation on fair value adjustments on intangible fixed assets (net of deferred tax)	(50)	(46)
Total Group share in net loss for the year	**(52)**	(188)
Other comprehensive income	67	21
Group share in total comprehensive income/ (expense)	**15**	(167)

11. Investments in joint ventures (CONTINUED)

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

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
As at 1 January	**1,290**	1,457
Acquisition in joint venture	**–**	–
Group share of net loss for the year	**(52)**	(188)
Foreign currency translation differences	**67**	21
As at 31 December	**1,305**	1,290

12. Inventories

Inventories include the following:

	As at 31 December	
	2022 £'000	2021 £'000
Raw materials	**2,179**	1,249
Goods purchased for resale	**11,295**	9,079
Total inventories (at cost or net realisable value)	**13,474**	10,328

The amount of inventory recognised as an expense during 2022 amounts to £29,780k (2021: £33,016k). The inventory includes a provision for write-off of £354k (2021: £617k). Inventory write-downs during 2022 amounted to £462k (2021: £499k). These costs are classified as part of the costs of goods sold.

13. Trade receivables, other current assets and other non-current assets

Trade receivables include the following:

	As at 31 December	
	2022 £'000	2021 £'000
Trade receivables	**13,631**	7,212
Expected credit loss	**(63)**	(77)
Total	**13,568**	7,135

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 and 90 days.

As at 31 December 2022, trade receivables of an initial value of £63k (2021: £77k) were impaired and fully provided for. The table below shows the changes in the allowance of receivables.

	£'000
As at 1 January 2021	(84)
Additional impairments	(2)
Reversal impairment	3
Exchange difference	6
As at 31 December 2021	(77)
Additional impairments	–
Reversal impairment	19
Exchange difference	(5)
As at 31 December 2022	**(63)**

Other current assets include the following:

	As at 31 December	
	2022 £'000	2021 £'000
Other receivables	**688**	868
Deferred charges	**27**	332
Total	**715**	1,200

Other current assets amount to £715k (2021: £1,200k) at the end of the reporting year and mainly include reclaimable taxes.

Deferred charges mainly include charges to be carried forward totalling £27k (2021: £332k).

	As at 31 December	
	2022 £'000	2021 £'000
Other non-current assets	**–**	24

14. Cash and cash equivalents

Cash and cash equivalents include the following:

	As at 31 December	
	2022 £'000	2021 £'000
Cash at bank	**5,976**	5,633
Cash equivalents	**59**	–
Total	**6,035**	5,633

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 2022 and 2021.

15. Trade payables

	As at 31 December	
	2022 £'000	2021 £'000
Trade payables	**15,497**	10,021
Total	**15,497**	10,021

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

16. Borrowings

The loans and borrowings include the following:

			As at 31 December	
	Interest rate	**Maturity**	**2022 £'000**	2021 £'000
Revolving credit facilities	Euribor +1.50%	March–25	**4,435**	5,462
Acquisition loan	Euribor +1.75%	March–25	**3,991**	3,781
Lease liabilities	See note 23		**3,011**	1,719
Total loans and borrowings			**11,437**	10,962
Of which				
Non-current			**10,585**	10,239
Current			**852**	723

16. Borrowings (CONTINUED)

Borrowing facilities

The Group has total facilities of €51.5m to 31 March 2025, provided by a syndicate of four banks, comprising a committed revolving credit facility (RCF) of €41.5m and a €10.0m acquisition line, the latter of which cannot be utilised to fund operations.

The loans have a variable, Euribor-based interest rate, increased with a margin of 1.50% or 1.75%. The revolving credit facilities and the acquisition financing have a bullet maturity in March 2025.

The Group manages its banking arrangements centrally through cross-currency cash pooling. Funds are swept daily from its various bank accounts into central bank accounts to optimise the Group's net interest payable position.

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

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

Net of cash balances totalling £6.0m, £4.4m of the RCF was utilised at the year end, leaving headroom of £38.4m.

As at 31 December 2022 and throughout the financial year, all covenant requirements were met with significant headroom across all three measures.

Net debt reconciliation

	As at 31 December	
	2022 £'000	2021 £'000
Net debt		
Cash and cash equivalents	**6,035**	5,633
Borrowings	**(8,426)**	(9,244)
Lease liabilities	**(3,011)**	(1,719)
Total	**(5,402)**	(5,330)

	Liabilities from financing activities		Other assets	
	Borrowings £'000	**Leases £'000**	**Cash £'000**	**Total £'000**
Net debt as at 1 January 2020	(17,069)	(1,812)	5,265	(13,616)
Financing cash flows	6,952	1,077	96	8,125
New leases	–	(1,037)	–	(1,037)
Foreign exchange adjustments	1,266	105	272	1,643
Other charges	(1)	–	–	(1)
Interest expense	(392)	(53)	–	(445)
Net debt as at 31 December 2021	**(9,244)**	**(1,720)**	**5,633**	**(5,331)**
Financing cash flows	1,320	1,086	614	3,020
New leases	–	(2,142)	–	(2,142)
Foreign exchange adjustments	(148)	(145)	(212)	(506)
Interest expense	(354)	(90)	–	(444)
Net debt as at 31 December 2022	**(8,426)**	**(3,011)**	**6,035**	**(5,402)**

17. Provisions

Provisions consist of the following:

	As at 31 December	
	2022 £'000	2021 £'000
Service warranties	**106**	126
Onerous contract	**108**	128
Severance payments	**104**	80
Other	**22**	74
Total	**340**	408

Service warranties provision relate to claims in respect of products sold which are still under warranty at the end of the reporting period. These claims are expected to be settled in the next financial year. Onerous contract provision relates to one specific customer contract, operating to September 2023, where the costs of meeting the obligations under the contract exceed the economic benefits expected to be received. Severance payment provisions relate to legal obligations towards commercial agents in Italy.

	Service warranties £'000	**Onerous contract £'000**	**Severance payments £'000**	**Other £'000**	**Total £'000**
Carrying amount at start of the year	**126**	**128**	**80**	**74**	**408**
Charged/(Credited) to Profit and Loss					
– Additional provision	60	–	26	–	86
– Unused amounts reversed	(80)	–	(6)	(56)	(142)
Amounts used during the year	–	(20)	–	–	(20)
Exchange difference	–	–	4	4	8
Carrying amount at end of the year	**106**	**108**	**104**	**22**	**340**

Contingent liability relating to the sale of Medini NV

On 3 September 2018, Ecuphar NV sold the wholesale business Medini NV to Vetdis Holding NV (Vetdis) under a Share Purchase Agreement (SPA). In June 2019, Vetdis sent a letter to Ecuphar claiming that Ecuphar had breached the SPA. Ecuphar disputes the majority of the claim; however, Ecuphar considers it likely that part of the claim, amounting to €157,836 (£139,988), may be valid. 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. The court did not decide on the merits of the claim, instead it appointed an expert auditor to examine the documents and advise the court on the claim. The court, however, ordered Vetdis to pay the current account debt plus interest at 8%, and on 4 May 2021, Vetdis made a payment of €432,762 (£383,824). The process involving the expert auditor is ongoing. Other than the €157,836 (£139,988), which may be valid, and is written off from the outstanding other receivables from Vetdis, no further provision in respect of this matter has been included in the financial statements.

18. Other non-current liabilities

Other non-current liabilities consist of the fair value of the long-term capital contribution in STEM that hasn't been paid yet (£254k including the discount unwinding effect) and the outstanding payable of the STEM licensing agreement (£459k). For more information refer to note 11. A liability with regards to Identicare share-based payment arrangement (£198k) is also included in the other non-current liabilities. For more information refer to note 26.

	As at 31 December	
	2022 £'000	2021 £'000
Non-current liabilities	**911**	1,157
Total	**911**	1,157

19. Accrued charges and contract liabilities

Accrued charges and contract liabilities consists of the following:

	As at 31 December	
	2022 £'000	2021 £'000
Accrued charges	**777**	923
Contract liabilities – due within one year	**512**	168
Other	**(13)**	(8)
Total due within one year	**1,276**	1,083
Contract liabilities – due after one year	**372**	675

Accrued charges of £777k (2021: £923k) mainly include Ecuphar Veterinaria (£406k), Ecuphar NV (£64k), Belphar (£235k) and UK (£70k) and are mostly related to payroll and accrued bank interest costs.

Contract liabilities are liabilities that arise from certain services sold by the Group's subsidiary Identicare Limited.

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

Throughout 2022, Identicare Limited also operated both monthly and annual subscription-based services to pet owners, with income recognised accordingly over the period of the subscription.

Movements in the Group's contract liabilities tables outstanding:

	As at 31 December	
	2022 £'000	2021 £'000
Balance at the beginning of the year	**843**	790
Contract liabilities to following years	**418**	170
Release of contract liabilities from previous years	**(377)**	(117)
Balance at the end of the year	**884**	843

The contract liabilities fall due as follows:

	As at 31 December	
	2022 £'000	2021 £'000
Within one year	**512**	168
After one year	**372**	675
Balance at the end of the year	**884**	843

20. Other current liabilities

Other current liabilities include the following:

	As at 31 December	
	2022 £'000	2021 £'000
Payroll-related liabilities	**1,715**	1,356
Indirect taxes payable	**1,552**	547
Other current liabilities	**760**	253
Total	**4,027**	2,156

The Group acquired a one-third stake in STEM Animal Health Inc. on 28 September 2020, for a cash consideration of CA$3m, of which CA$1.5m was already paid in prior years, CA$0.5m during the financial year and CA$1.0m still payable over 20 months.

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

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

In the prior year, the Group made its first license payment of CA$0.5m. The following payment is due in 2023, resulting in a short-term payment of £425k. Further, for the capital contribution, the outstanding short-term liability is £292k including the discount unwinding effect (2021: £277k), shown in the balance sheet as other current liability.

Indirect taxes payable increased by £1,005k mainly due to the increase in outstanding VAT payable of the UK entities.

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2022

21. Fair value

Financial assets

The carrying value and fair value of the financial assets as at 31 December 2022 and 2021 are presented as follows:

	Carrying value		Fair value	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Financial assets measured at amortised cost				
Trade and other receivables (current)	**13,568**	7,135	**13,568**	7,135
Trade and other receivables (non-current)	**–**	24	**–**	24
Other financial assets (non-current)	**70**	90	**70**	90
Other current assets	**715**	1,199	**715**	1,199
Cash and cash equivalents	**6,035**	5,633	**6,035**	5,633
Total financial assets measured at amortised cost	**20,388**	14,081	**20,388**	14,081

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 2022 and 2021.

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% stake in its joint venture STEM Animal Health Inc. exercisable for a period of six years until September 28 2026. The call option is valued at fair value through Profit and Loss and is remeasured every year. As at 31 December 2022 the call option has a carrying value of £nil as it is has been assessed as not substantive and not favourable when considering the future forecasts of STEM Animal Health Inc. and therefore the value attached to the option. 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 as at 31 December 2022 and 2021 are presented as follows:

	Carrying value		Fair value	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Financial liabilities measured at amortised cost				
Borrowings	**8,426**	9,244	**8,426**	9,244
Lease liabilities	**3,011**	1,719	**3,011**	1,719
Trade payables	**15,497**	10,021	**15,497**	10,021
Other non-current liabilities	**911**	1,157	**911**	1,157
Other current liabilities	**6,297**	4,385	**6,297**	4,385
Total financial liabilities measured at amortised cost	**34,142**	26,526	**34,142**	26,526
Total non-current	**11,496**	11,396	**11,496**	11,396
Total current	**22,646**	15,130	**22,646**	15,130

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.

22. Share capital

	As at 31 December	
Number of shares	**2022**	2021
Allotted, called up and fully paid ordinary shares of 20p each	**60,092,161**	60,092,161

	As at 31 December	
	2022 **£'000**	2021 £'000
Allotted, called up and fully paid ordinary shares of 20p each	**12,019**	12,019

The Company does not have a limited amount of authorised share capital.

The following share transactions have taken place during the year ended 31 December 2022:

	As at 31 December 2022	
	Number of shares	**£'000**
At 1 January 2022	60,092,161	12,019
At 31 December 2022	**60,092,161**	**12,019**

Dividends

	As at 31 December	
	2022 **£'000**	2021 £'000
Ordinary final dividend as at 31 December 2020 of 2.0p per share	**–**	1,201
Ordinary interim dividend paid as at 31 December 2021 of 2.0p per share	**–**	1,202
Ordinary final dividend as at 31 December 2021 of 2.4p per share	**1,442**	–
Ordinary interim dividend paid as at 31 December 2022 of 2.0p per share	**1,202**	–
	2,644	2,403

An interim dividend of 2.0 pence per share was paid in November 2022.

The Board is proposing a final dividend of 2.4 pence per share (2021: 2.4 pence per share). Subject to shareholder approval at the Annual General Meeting to be held on 13 June 2023, the final dividend will be paid on 14 July 2023 to shareholders whose names are on the Register of Members at close of business on 16 June 2023. The ordinary shares will become ex-dividend on 15 June 2023.

23. IFRS 16 Leases

The balance sheet shows the following amounts relating to leases as at 31 December 2022:

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Buildings	**1,639**	579
Vehicles	**1,257**	1,079
Other	**28**	–
Total right-of-use assets	**2,924**	1,658
Current lease liabilities	**852**	723
Non-current lease liabilities	**2,159**	996
Total lease liabilities	**3,011**	1,719

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

	Land and buildings £'000	Vehicles £'000	Other £'000	Total £'000
Acquisition value/cost				
As at 1 January 2021	1,570	2,029	84	3,683
Additions	336	881	–	1,217
Disposals	(286)	(425)	(63)	(774)
Transfers	3	–	(3)	–
Currency Translation	(84)	(134)	(2)	(220)
Contract modifications	(12)	(61)	–	(73)
As at 31 December 2021	1,527	2,290	16	3,833
Additions	**1,343**	**678**	**30**	**2,051**
Disposals	**(855)**	**(415)**	**(14)**	**(1,284)**
Currency Translation	**104**	**128**	**1**	**233**
Contract modifications	**(5)**	**75**	**–**	**70**
As at 31 December 2022	**2,114**	**2,756**	**33**	**4,903**
Depreciation				
As at 1 January 2021	(739)	(1,071)	(83)	(1,893)
Depreciation charge for the year	(428)	(634)	(4)	(1,066)
Disposals	173	393	63	629
Transfers	(6)	–	6	–
Contract modifications	9	31	–	40
Currency translation	43	70	2	115
As at 31 December 2021	(948)	(1,211)	(16)	(2,175)
Depreciation charge for the year	**(358)**	**(662)**	**(3)**	**(1,023)**
Disposals	**855**	**415**	**14**	**1,284**
Contract modifications	**–**	**27**	**–**	**27**
Currency translation	**(24)**	**(68)**	**–**	**(92)**
As at 31 December 2022	**(475)**	**(1,499)**	**(5)**	**(1,979)**
Net book value				
At 31 December 2022	**1,639**	**1,257**	**28**	**2,924**

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

	Lease Liability £'000
As at 1 January 2022	1,719
Additions	2,066
Disposals	(6)
Interest expense	90
Payments	(1,086)
Modifications	82
Currency translation adjustment	146
As at 31 December 2022	**3,011**

The following amounts are recognised in the income statement:

	For the year ended 31 December 2022 £'000
Depreciation expense of right-of-use assets	**(1,023)**
Interest expense on lease liabilities	**(90)**
Gain on disposal of IFRS 16 assets	**6**
Expense relating to short-term leases and low-value assets	**(108)**
Total amount recognised in the income statement	**(1,215)**

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 2022 the Group's maximum exposure to credit risk is £13,568k, which is the amount of the trade receivables in the consolidated financial statements (2021: £7,135k).

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 2022	**13,568**	**12,989**	**681**	**32**	**(70)**	**16**	**(80)**	**0.5%**
Receivables	**13,631**	**12,989**	**681**	**32**	**(70)**	**16**	**(17)**	
Expected credit loss	**(63)**	**–**	**–**	**–**	**–**	**–**	**(63)**	
31 December 2021	7,135	6,725	429	23	13	(57)	2	1.0%
Receivables	7,208	6,725	429	23	13	(57)	75	
Expected credit loss	(73)	–	–	–	–	–	(73)	

24. Risks (CONTINUED)

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 2022, the Group had the following sources of liquidity available:

- Cash and cash equivalents: £6,035k
- Undrawn credit facilities with several banks: £32,373k
- Undrawn acquisition financing: £4,878k

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 2022					
Borrowings	**–**	**(8,426)**	**–**	**–**	**(8,426)**
Lease liabilities	**(852)**	**(1,553)**	**(394)**	**(439)**	**(3,238)**
Trade payables	**(15,497)**	**–**	**–**	**–**	**(15,497)**
Other current liabilities	**(4,027)**	**–**	**–**	**–**	**(4,027)**
Total	**(20,376)**	**(9,979)**	**(394)**	**(439)**	**(31,188)**

	< 1 year £'000	1 to 3 years £'000	4–5 years £'000	> 5 years £'000	Total £'000
At 31 December 2021					
Borrowings	–	(9,243)	–	–	(9,243)
Lease liabilities	(723)	(1,451)	(301)	(490)	(2,965)
Trade payables	(10,021)	–	–	–	(10,021)
Other current liabilities	(2,156)	–	–	–	(2,156)
Total	(12,900)	(10,694)	(301)	(490)	(24,385)

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

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

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

Foreign exchange risk

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

	As at 31 December			
	Assets 2022 £'000	Assets 2021 £'000	**Liabilities 2022 £'000**	Liabilities 2021 £'000
EUR/GBP	**26,471**	18,911	**38,335**	27,589
GBP/EUR	**18,494**	16,322	**29,020**	18,361
EUR/USD	**(108)**	–	**297**	101
GBP/USD	**(14)**	–	**138**	117
EUR/HUF	**–**	–	**4**	–
EUR/CAD	**–**	–	**1,533**	1,545
EUR/SEK	**7**	6	**–**	–

The cumulative effect of the foreign currency translation effects is reported under other comprehensive income in the statement of financial position and amounts to £2,908k (2021: £2,311k).

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 sterling and EUR when applied to outstanding monetary items denominated in foreign currency as at 31 December 2022. A positive number indicates that an increase in profit would arise from a 10.00% change in value of sterling or EUR against these currencies; a negative number indicates that a decrease would arise.

	Strengthening £'000	**Weakening £'000**
EUR/GBP	1,186	(1,186)
GBP/EUR	1,053	(1,053)
EUR/USD	41	(41)
GBP/USD	15	(15)
EUR/CAD	153	(153)

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 £78k lower/higher in 2022 and £108k lower/higher in 2021.

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 shareholders' equity which amounts to £79,172k as at 31 December 2022 (2021: £78,799k).

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 2022 and 2021.

25. Remuneration paid to the Company's auditors

	For the year ended 31 December 2022 £'000	2021 £'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	**120**	110
The audit of the Company's subsidiaries pursuant to legislation	**227**	156
Total audit fees	**347**	266
Other services	**8**	2
Total non-audit fees	**8**	2
Total auditors' remuneration	**355**	268

26. Share-based payments

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

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

Long-Term Incentive Plan ("LTIP")

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

	2022 LTIP option	2021 LTIP option	2020 LTIP option	2019 LTIP option
Outstanding at 1 January 2022	–	264,981	360,565	364,278
Granted during the year	302,037	–	–	–
Vested during the year	–	–	–	(145,382)
Lapsed during the year	–	(9,231)	(17,978)	(218,896)
Outstanding at 31 December 2022	302,037	255,750	342,587	–
Exercisable at 31 December 2022	**–**	**–**	**–**	**145,382**

The options outstanding and exercisable at the year-end have a weighted average remaining contractual life of 8.34 years.

The options granted in 2022 and 2021 will vest subject to the following performance conditions based on EPS being met:

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

The 2020 and 2019 options were subject to the following performance conditions based on EPS being 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

All options granted are subject to the same TSR performance criteria as per the table below:

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%

2022 LTIP Options

On 28 April 2022, the Board approved the grant of nil-cost options under the LTIP over a total of 302,037 ordinary shares with a nominal value of 20.0 pence per share which were awarded to the Company's Executive Directors and certain members of the Senior Executive Team and Leadership Team. The LTIP awards will vest on 1 July 2025 subject to the performance criteria being met over the three-year financial period ending 30 June 2025. On vesting, awards can be exercised until 28 April 2032, being the tenth anniversary of the date of grant.

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

Inputs into the option pricing models were as follows:

Weighted average share price	£3.23
Weighted average exercise price	£Nil
Expected volatility	30.1%
Expected life	3.2 years
Expected dividend yield	1.24%
Fair value per option – EPS tranche	£3.10
Fair value per option – TSR tranche	£2.57
Risk-free rate	1.58%

2021 LTIP Options

On 5 November 2021, nil-cost options over a total of 264,981 ordinary shares with a nominal value of 20p per share were awarded to certain members of the Senior Executive Team and Group Leadership Team. During the year 9,231 of the options lapsed due to cessation of employment, leaving 255,750 options outstanding.

The awards will normally vest three years after the date of grant subject to the performance criteria being met over the three-year financial period ending 31 December 2024. On vesting, awards can be exercised until 5 November 2031, being the tenth anniversary of the date of grant.

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

26. Share-based payments (CONTINUED)

Inputs into the option pricing models were as follows:

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

2020 LTIP Options

On 17 November 2020, nil-cost options over a total of 377,120 ordinary shares with a nominal value of 20p per share were awarded to certain members of the Senior Executive Team and Group Leadership Team. During 2021, 16,555 of the options lapsed due to cessation of employment. During 2022, a further 17,978 options lapsed, leaving 342,587 options outstanding.

The awards will normally vest three years after the date of grant subject to the performance criteria being met over the three-year financial period ending 31 December 2023. On vesting, awards can be exercised until 17 November 2030, being the tenth anniversary of the date of grant.

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 LTIP was 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%

2019 LTIP Options

On 6 June 2019, nil-cost options over a total of 425,279 ordinary shares with a nominal value of 20p per share were awarded to certain members of the Senior Executive Team and Group Leadership Team. On 29 June 2020, a further grant of 14,076 ordinary shares was made to a member of the Group Leadership Team pursuant to the same performance and vesting criteria as the 2019 LTIP options. During 2020 and 2021, 56,488 and 18,589 options lapsed respectively due to cessation of employment, leaving 364,278 options outstanding as at 1 January 2022.

On 23 March 2022, 20,187 options lapsed due to cessation of employment. On 6 June 2022, 145,382 options granted on 6 June 2019 vested, with the remaining 198,709 options lapsed. These vested options have yet to be exercised; the participants have 6.4 years in which to exercise these options.

Details of the performance targets set and actual achievement against them in respect of the 2019 LTIP awards vesting, based on three-year performance to 31 December 2021, are set out in the table below:

Performance measure	Weighting	Performance period end	Threshold (25% vesting)	Maximum (100% vesting)	Actual	% vesting for this part of the award
Underlying EPS	50%	31 December 2021	12.8p	14.7p	12.0p	0%
TSR	50%	31 December 2021	Median	Upper quartile	Between median and upper quartile	83.0%

Identicare share-based payment arrangement

During the year, the Group entered into a share-based payments arrangement in respect of growth shares issued in its subsidiary, Identicare Limited ("Identicare"). The ownership of the shares requires ongoing employment and carries value to the holder on either the sale of Identicare, or after five years the holder can obligate the Group to repurchase the shares at market value via a put option. The Group can also obligate the holder to sell the shares to the Group at market value via a call option. The shares carry preferential rights to return upon the sale of Identicare with an increasing ratchet depending on the value of Identicare.

The exit terms on the shares qualify for value at 15% of proceeds if the equity value on sale or market value is less than £20m, 17% in the range £20m–£40m, and 20% above £40m. The shares were acquired on the arrangement's inception date of 1 January 2022 for unrestricted market value as determined at that date. The shares carry no voting rights nor rights to distributions from Identicare. The arrangement carries a cash repurchase requirement by the Group at the acquisition cost within five years from the inception of the agreement should the employee cease to be employed. This represents an event outside of the Group's control for which a future payment may need to be made, and therefore a liability of £33k is recognised within non-current liabilities.

26. Share-based payments (CONTINUED)

Given the terms applied to the shares, the Group has accounted for these as equivalent to redeemable shares, and as a result of the requirement for ongoing employment have applied the principles of IFRS 2 'Share-based payments' to the arrangement. The arrangement stipulates that a minimum of 50% of the shares are to be purchased in cash upon redemption, with the remaining 50% having choice of settlement, at the discretion of the Group, to either issue shares in the Group or purchase with further cash. In line with IFRS 2, 50% of the arrangement has therefore been accounted for as a cash-settled share-based payment arrangement, reflecting the Group's potential obligation to repurchase the shares in the event that no exit occurs, with the other 50% of the arrangement being treated as an equity-settled share-based payment due to there being no present obligation to settle in cash.

FAIR VALUE – CASH SETTLED PORTION

As at 31 December 2022 the arrangement has been valued using a Monte Carlo simulation, reflecting the ratchet nature of potential exit outcomes. The following inputs have been used to determine the fair value of the arrangement:

	At 31.12.22
Starting value of Identicare	£4.1m
Expected volatility	38.91%
Risk-free rate	3.60%
Expected dividend yields	0.00%
Expected remaining life	4 years

The resulting fair value of the scheme is £1,646k as at the year end, and this represents the total expected liquidity risk to the Group as at the year end. As the arrangement has only been in place for one year of its expected five-year life, the value as at the year end reflects this proportion.

The fair value of the arrangement, based on 50% being cash-settled, is £165k, being a liability held at fair value through profit and loss. The liability is included in the Consolidated Statement of Financial Position under other non-current liabilities however is carried currently at £165k plus the original £33k paid for the shares totalling £198k. The charge to profit and loss is included as a non-underlying item in the Consolidated Income Statement, and disclosed separately in note 4, to reflect the potential volatility arising from movements in the value of this arrangement. No non-market conditions have been included in the calculation of the charge to profit and loss.

FAIR VALUE – EQUITY SETTLED PORTION

The fair value of the equity-settled portion of the arrangement (50%) was £547k, determined at the date of issue of the shares using a Monte Carlo simulation, in conjunction with a third-party valuation specialist, taking into account the exit terms noted earlier.

The following inputs have been used to determine the fair value:

Valuation date	1 January 2022
Starting enterprise value	£6.9m
Closing net debt	£3.3m
Expected volatility	32.75%
Risk-free rate	0.72%
Expected dividend yield	0.00%
Expected life	3 years

The Group recognised a total charge in respect of share-based payments, including £220k non-underlying items, of £542k (2021: £249k).

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

Transactions with investments in joint venture is described in note 11.

Remuneration of the Executive Directors, who are the key management personnel of the Group, is included in the Directors' Remuneration Report, and further disclosed below:

	For the year ended 31 December	
	2022 £'000	2021 £'000
Short term employment benefits	**672**	887
Post employment benefits	**22**	23
Share-based payments	**204**	235
Total remuneration	**898**	1,145

Short term employment benefits comprise £566k salaries (2021: £515k), £nil annual bonus (2021: £237k), £29k of benefits (2021: £26k) and £77k of employer social security contributions (2021: £109k).

28. Overview of consolidated entities

Name	Country of incorporation	Registered address	% equity interest 2022	2021	Consolidation method
Ecuphar NV	Belgium	Legeweg 157i, 8020 Oostkamp	**100%**	100%	Fully consolidated
Orthopaedics.be NV	Belgium	Legeweg 157i, 8020 Oostkamp	**100%**	100%	Fully consolidated*
Ecuphar BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	**100%**	100%	Fully consolidated
Ecuphar Veterinary Products BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	**100%**	100%	Fully consolidated
Ornis SA	France	Rue de Roubaix 33, 59200 Tourcoing	**100%**	100%	Fully consolidated
Ecuphar GmbH	Germany	Brandteichstraße 20, 17489 Greifswald	**100%**	100%	Fully consolidated
Euracon Pharma Consulting und Trading GmbH	Germany	Max-Planck Str. 11, 85716 Unterschleißheim	**100%**	100%	Fully consolidated
Ecuphar Veterinaria SA	Spain	C/ Cerdanya, 10-12, pl 6. 08173 Sant Cugat del Vallés Barcelona	**100%**	100%	Fully consolidated
Ecuphar Italia	Italy	Viale Francesco Restelli, 3/7, piano 1, 20124 Milano	**100%**	100%	Fully consolidated
Belphar IDA	Portugal	Sintra Business Park, Edifício 1, Escritório 2K 2710-089 Sintra	**100%**	100%	Fully consolidated
Animalcare Group plc	United Kingdom	Moorside, Monks Cross, York, YO32 9LB	**100%**	100%	Fully consolidated
Animalcare Ltd	United Kingdom	Moorside, Monks Cross, York, YO32 9LB	**100%**	100%	Fully consolidated
Identicare Ltd.	United Kingdom	Moorside, Monks Cross, York, YO32 9LB	**100%**	100%	Fully consolidated
STEM Animal Health Inc.	Canada	Innovation Drive Winnipeg 162-196, Manitoba, R3T 2N2	**33%**	33%	Equity method

* As per 23 December 2022, the extraordinary shareholders meeting of Orthopaedics.be NV decided upon the dissolution and liquidation of the company.

29. Restatement of comparative figures

Intangible Assets (note 9) and Property, Plant and Equipment (note 10) have been restated to reclassify 'Assets under construction' that were previously presented as Property, Plant and Equipment as Intangible Assets as they related to research and development. The impact on the net book value for the year ended 31 December 2021 and 1 January 2022 is as follows:

	As at 31 December 2021 £'000
Previously stated	
Intangible assets	29,719
Property, plant and equipment	626
Adjusted	
Intangible assets	494
Property, plant and equipment	(494)
Restated	
Intangible assets	30,213
Property, plant and equipment	132

The cash flow statement has been restated to reflect the updated movements in Purchase of property, plant and equipment and Purchase of intangible assets, as follows:

	As at 31 December 2021 £'000
Previously stated	
Purchase of property, plant and equipment	(557)
Purchase of intangible assets	(2,658)
Adjusted	
Purchase of property, plant and equipment	499
Purchase of intangible assets	(499)
Restated	
Purchase of property, plant and equipment	(58)
Purchase of intangible assets	(3,157)

Company Statement of Financial Position

AS AT 31 DECEMBER 2022

	Note	As at 31 December 2022 £'000	2021 £'000
Non-current assets			
Right-of-use-assets	10	**44**	–
Investments in subsidiary companies	6	**147,917**	147,743
Deferred tax asset	11	**662**	44
		148,623	147,787
Current assets			
Trade and other receivables	7	**4,376**	8,502
Cash and cash equivalents	8	**24**	6
		4,400	8,508
Total assets		**153,023**	156,295
Current liabilities			
Lease liabilities	10	**(12)**	–
Trade and other payables	9	**(456)**	(2,869)
		(468)	(2,869)
Net current assets		**3,931**	5,639
Non-current liabilities			
Lease liabilities	10	**(32)**	–
		(32)	–
Total liabilities		**(500)**	(2,869)
Net assets		**152,523**	153,426
Capital and reserves			
Called-up share capital	12	**12,019**	12,019
Share premium account		**132,798**	132,798
Retained earnings		**7,706**	8,609
Total shareholders' funds		**152,523**	153,426

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present a separate Profit and Loss account in these separate financial statements. The profit dealt with in the financial statements of the Company was £1,363k (2021: £6,574k profit).

The financial statements of Animalcare Group plc, registered number 01058015, were approved by the Board of Directors and authorised for issue on 15 May 2023. 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 2022

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total Shareholders' Funds £'000
Balance at 1 January 2021		12,012	132,729	4,203	148,944
Total comprehensive income for the period	3	–	–	6,574	6,574
Transactions with owners of the Company, recognised in equity:					
Dividends paid	5	–	–	(2,403)	(2,403)
Share-based payments	13	–	–	235	235
Exercise of share options		7	69	–	76
Balance at 31 December 2021 and 1 January 2022		12,019	132,798	8,609	153,426
Total comprehensive income for the period	3	–	–	1,363	1,363
Transactions with owners of the Company, recognised in equity:					
Dividends paid	5	–	–	(2,644)	(2,644)
Share-based payments	13	–	–	378	378
Balance at 31 December 2022		**12,019**	**132,798**	**7,706**	**152,523**

Company Cash Flow Statement

YEAR ENDED 31 DECEMBER 2022

	Note	As at 31 December 2022 £'000	2021 £'000
Comprehensive (loss)/income for the year before tax		**(35)**	6,080
Adjustments for:			
Depreciation		**4**	–
Finance (income)/cost		**(956)**	696
Proceeds from dividends of subsidiaries		**–**	(8,091)
Share-based payment expense	13	**378**	235
Operating cash flows before movements in working capital		**(609)**	(1,080)
(Increase)/decrease in receivables	7	**5,965**	3,550
Increase/(decrease) in payables	9	**(2,636)**	(135)
Net cash flow from operating activities		**2,720**	2,335
Investing:			
Acquisition of property, plant and equipment ROU asset		**(48)**	–
Net cash used in investing activities		**(48)**	–
Financing:			
Receipts from issue of share capital		**–**	76
Payments of lease liabilities		**(5)**	–
Interest (paid)/received		**(5)**	46
Equity dividends paid	5	**(2,644)**	(2,403)
Net cash used in financing activities		**(2,654)**	(2,281)
Net increase/(decrease) in cash and cash equivalents		**18**	(54)
Cash and cash equivalents at start of year		**6**	60
Cash and cash equivalents at end of year		**24**	6
Comprising:			
Cash and cash equivalents	8	**24**	6

Notes to the Company Financial Statements

YEAR ENDED 31 DECEMBER 2022

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 2022 to 31 December 2022.

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

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present a separate Profit and Loss account in these separate financial statements. The profit dealt with in the financial statements of the Company was £1,363k (2021: £6,574k profit).

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

Going concern

The Group's financing arrangements consist of a committed revolving credit facility of €41.5m (£36.8m) and a €10.0m (£8.9m) acquisition line, the latter of which cannot be utilised to fund our operations.

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

Net debt to underlying EBITDA ratio of 3.5 times; underlying EBITDA to interest ratio of minimum 4 times; and solvency (total assets less goodwill/ total equity less goodwill) greater than 25%. As at 31 December 2022 and throughout the financial year, all covenant requirements were met with significant headroom across all three measures. The principal risks and uncertainties facing the Group are set out in the Strategic Report on pages 4 to 41.

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

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

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

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

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

Impairment charges are included in profit or loss.

Dividends

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

Share-based payments

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

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

Taxation

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

The tax currently payable is based on taxable profit for the year.

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

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

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

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

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

Financial instruments

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

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

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

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

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

Measurement of ECLs

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

Notes to the Company Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2022

1. Significant accounting policies (CONTINUED)

Write-offs

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

Non-recurring items

Non-recurring items are 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.

The separate presentation of exceptional 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.

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 2022

Standards and interpretations applicable for the annual period beginning on or after 1 January 2022:

- Amendment to IFRS 16 Leases: COVID-19-Related Rent Concessions beyond 30 June 2021 (applicable for annual periods beginning on or after 1 April 2021)
- Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use (applicable for annual periods beginning on or after 1 January 2022)
- 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)
- Amendments to IFRS 3 Business Combinations: Reference to the Conceptual Framework (applicable for annual periods beginning on or after 1 January 2022)
- Annual Improvements to IFRS Standards 2018–2020 (applicable for annual periods beginning on or after 1 January 2022)

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

Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2022

The IFRS accounting standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards and interpretations, if applicable, when they become effective. These new standards will have no material impact on the Company's financial statements.

- 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 2024 or later, but not yet endorsed in the UK)
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (applicable for annual periods beginning on or after 1 January 2023)
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (applicable for annual periods beginning on or after 1 January 2023)
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (applicable for annual periods beginning on or after 1 January 2023)
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (applicable for annual periods beginning on or after 1 January 2024, but not yet endorsed in the UK)

Significant accounting judgements, estimates and assumptions

CARRYING VALUE OF INVESTMENTS IN SUBSIDIARY COMPANIES

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

2. Non-underlying items

	For the year ended 31 December	
	2022 £'000	2021 £'000
Acquisition and integration costs	**85**	–
Other exceptional costs	**–**	109
Total exceptional and other items	**85**	109

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.

Acquisition & integration costs during 2022 of £85k mainly relate to professional fees in respect of legal and tax structuring advice.

3. Total comprehensive income for the year

	For the year ended 31 December	
	2022 £'000	2021 £'000
Total comprehensive income for the year has been arrived at after charging/(crediting):		
Finance income	**(1,230)**	–
Finance costs	**274**	696
Dividend income received from subsidiary – Ecuphar NV	**–**	8,091

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

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

	For the year ended 31 December	
	2022 £'000	2021 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**120**	110
Total audit fees	**120**	110

Notes to the Company Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2022

4 Directors' remuneration and interests

Emoluments

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

Year ended 31 December 2022	Salary £'000	Bonus £'000	Company pension contributions £'000	Benefits £'000	Compensation for loss of office £'000	Total £'000
J Boone*	70	–	–	–	–	70
C Brewster[2]	230	–	22	14	–	266
M Coucke*	40	–	–	–	–	40
N Downshire*[3]	17	–	–	–	–	17
D Hutchens[4]	38	–	–	–	–	38
S Metayer[5]	30	–	–	–	–	30
E Torr*[6]	45	–	–	–	–	45
J Winter[1]	336	–	–	15	–	351
Total	806	–	22	29	–	857

* Indicates Non-Executive Directors

1 Jennifer Winter's benefits comprise a car allowance (£10.5k) and private medical insurance (£4.4k).

2 Chris Brewster's benefits comprise a car allowance pro-rated to 31 August (£7.0k) which was replaced by a company car from 1 September, with a pro-rated lease cost of £4.5k from 1 September to 31 December, and private medical insurance (£2.4k).

3 Nick Downshire ceased to be a Director on 7 June 2022. His annual fee of £40.0k was pro-rated to his date of resignation; the pro-rated fee for 2022 was £17.4k.

4 Doug Hutchens was appointed as a Director on 10 February 2022 for an annual fee of £40.0k. He was appointed to the two Board committees on 7 June 2022 and his annual fee was increased to £45k. Annual fees were pro-rated from the dates of appointment; the total fee paid in 2022 was £38.1k.

5 Sylvia Metayer was appointed as a Director with effect from 3 May 2022. Her annual fee of £40.0k, and an additional annual fee of £5.0k for her role as Chair of the Audit & Risk Committee, were pro-rated from her date of appointment. The pro-rated fee for 2022 was £29.9k.

6 Ed Torr receives an annual fee of £40.0k and an additional fee of £5.0k for his chairmanship of the Remuneration and Nomination Committee.

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

* Indicates Non-Executive Directors

1 Resigned 8 July 2021

The approved bonus awards to C Brewster and J Winter in respect of the 2021 financial year were accrued as at 31 December 2021 and were settled during 2022. All Company pension contributions relate to defined contribution pension schemes. Benefits consist of company car and private medical insurance.

Information relating to Directors' share options, including awards made during the financial year, is set out in the Directors' Remuneration Report.

5. Dividends

	For the year ended 31 December	
	2022 £'000	2021 £'000
Ordinary final dividend As at 31 December 2020 of 2.0p per share	**–**	1,201
Ordinary interim dividend paid for the period ended 31 December 2021 of 2.0p per share	**–**	1,202
Ordinary final dividend As at 31 December 2021 of 2.4p per share	**1,442**	–
Ordinary interim dividend paid for the period ended 31 December 2022 of 2.0p per share	**1,202**	–
	2,644	2,403

An interim dividend of 2.0 pence per share was paid in November 2022. The Board is proposing a final dividend of 2.4 pence per share (2021: 2.4 pence per share). Subject to shareholder approval at the Annual General Meeting to be held on 13 June 2023, the final dividend will be paid on 14 July 2023 to shareholders whose names are on the Register of Members at close of business on 16 June 2023. The ordinary shares will become ex-dividend on 15 June 2023.

6. Investments in subsidiaries

Subsidiary undertakings

Cost	**2022 £'000**
At 1 January 2022	**147,743**
LTIP granted to employees of subsidiaries	**174**
At 31 December 2022	**147,917**

Investments in subsidiaries are assessed annually to determine if there is any indication that these may be impaired.

The recoverable amount of investments in subsidiaries was determined based on a value in-use calculation. The discount rate and growth rate (in perpetuity) used for these calculations are as follows:

	2022	2021
Discount rate (pre-tax) %	**14.2**	11.8
Growth rate (in perpetuity) %	**2.0**	1.9

Cash flow forecasts are prepared using the current financial budget approved by the Directors, which covers a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated long-term growth rate. The cash flow forecasts assume revenue and profit growth in line with the five pillars of our growth strategy. The key assumptions surrounding revenue growth incorporate an average annual growth rate over the five-year forecast period for the existing core brands, based on past performance and expectations of the animal health market development, together with well above-market growth for recently launched and expected to be launched new products and services. Further, we have assessed the potential impact of climate change, with reference to our principal risks and the environmental disclosures made in the Sustainability report and consider that the impact on the valuation of investments in subsidiaries is limited.

The Group's impairment review is sensitive to change in assumptions used, most notably the expected future cash flows arising from growth in new products and services, discount rates and the perpetuity growth rates.

If the expected revenue growth and related cost of sales in the five year forecast period in relation to recently launched and expected to be launched new products and services (as explained in Our Strategy within the Annual Report) was 5% lower than management's estimates, with prudently, no corresponding mitigation in SG&A costs, the value in use would reduce by £5.7m but would not give rise to an impairment. A 10% reduction in the forecast revenues and related cost of sales for these products and services across the five year forecast period would result in the Company having to recognise an impairment against the carrying value of investments of £2.0m. A 1.0% increase in discount rate would cause the value in use to reduce by £17.1m and give rise to an impairment of £7.8m. A 2.0% increase in discount rate would lead to an impairment of £21.9m. A 1.0% reduction in perpetuity growth rates would reduce the value in use by £13.3m, and give rise to an impairment of £4.0m while reducing the long-term growth to 0.0% would result in a £15.0m impairment. Overall forecast compound revenue growth over the five-year period for all products is 6.4%. Headroom is reduced to nil if this rate falls to 5.8%, assuming gross margin percentages remain consistent with forecast and with no corresponding mitigation in SG&A costs.

Notes to the Company Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2022

6. Investments in subsidiaries (CONTINUED)

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 Limited[2]	United Kingdom	Moorside, Monks Cross, York YO32 9LB	Developer and marketer of veterinary pharmaceuticals	Ordinary
Identicare Limited[2]	United Kingdom	Moorside, Monks Cross, York YO32 9LB	Microchipping and other associated services	Ordinary
Orthopaedics.be NV[1,2]	Belgium	Legeweg 157i, 8020 Oostkamp	Non-trading	Ordinary
Ecuphar BV2	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	Marketer of veterinary pharmaceuticals	Ordinary
Ecuphar Veterinary Products BV[2]	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	Non-trading	Ordinary
Ornis SARL[2]	France	Rue de Roubaix 33, 59200 Tourcoing	Non-trading	Ordinary
Ecuphar GmbH[2]	Germany	Brandteichstraße 20, 17489 Greifswald	Marketer of veterinary pharmaceuticals	Ordinary
Euracon Pharma Consulting & Trading GmbH[2]	Germany	Max-Planck Str. 11, 85716 Unterschleißheim	Non-trading	Ordinary
Ecuphar Veterinaria SL[2]	Spain	Carrer Cerdanya, 10, 12, 08173 Sant Cugat del Vallès, Barcelona	Developer and marketer of veterinary pharmaceuticals	Ordinary
Ecuphar Italia SRL[2]	Italy	Viale Francesco Restelli, 3/7, piano 1, 20124 Milano	Marketer of veterinary pharmaceuticals	Ordinary
Belphar IDA[2]	Portugal	Sintra Business Park , nº 7, Edifício 1- Escritório 2K, 2710 089 Sintra	Marketer of veterinary pharmaceuticals	Ordinary

1 As per 23 December 2022, the extraordinary shareholders meeting of Orthopaedics.be NV decided upon the dissolution and liquidation of the company.

2 These subsidiaries are indirectly owned through related undertakings in the list.

7. Trade and other receivables

	As at 31 December	
	2022 £'000	2021 £'000
Corporation tax – Group relief	**1,265**	485
Prepayments and accrued income	**86**	65
Amounts due from subsidiaries	**3,024**	7,953
	4,375	8,502

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

Amounts due by Group undertakings at 31 December 2022 are unsecured, have no fixed date of repayment and are repayable on demand.

8. Cash and cash equivalents

	As at 31 December	
	2022 £'000	2021 £'000
Cash and cash equivalents	24	6

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

9. Other financial liabilities

	As at 31 December	
	2022 £'000	2021 £'000
Current liabilities	**468**	2,869
Trade payables	**354**	342
Lease liabilities	**12**	–
Other taxes and social security costs	**33**	52
Other creditors	**11**	7
Amounts payable to subsidiaries	**–**	2,106
Accruals	**58**	362
Non-Current liabilities	**31**	–
Lease liabilities	**31**	–
	499	2,869

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

10. IFRS 16 Leases

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

	2022 £'000	2021 £'000
Vehicles	**44**	–
Total right-of-use assets	**44**	–
Current lease liabilities	**12**	–
Non-current lease liabilities	**32**	–
Total lease liabilities	**44**	–

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

	Vehicles £'000	**Total £'000**
Acquisition value/cost		
At 1 January 2022	–	–
Additions	48	48
At 31 December 2022	**48**	**48**
Depreciation		
At 1 January 2022	–	–
Depreciation charge for the year	(4)	(4)
At 31 December 2022	**(4)**	**(4)**
Net book value		
At 31 December 2022	**44**	**44**

10. IFRS 16 Leases (CONTINUED)

The following amounts are recognised in the income statement:

	For the year ended 31 December 2022 £'000
Depreciation expense of right-of-use assets	**(4)**
Total amount recognised in the income statement	**(4)**

11. Deferred tax

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

	Accelerated tax depreciation £'000	Tax losses £'000	Other £'000	Total £'000
Balance at 1 January 2022	(1)	–	(43)	(44)
(Credit)/charge to income	(1)	(633)	16	(618)
At 31 December 2022	**(2)**	**(633)**	**(27)**	**(662)**

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

12. Number of shares to be disclosed

Share capital

	No.	£'000
Allotted, called up and fully paid at 1 January 2022 and 31 December 2022	60,092,161	12,019

13. Share-based payments

During the year the Company operated a Long Term Incentive Plan ("LTIP") where options are granted to subscribe for new shares in the Company for to certain members of the Group's Senior Executive Team and other members of the Leadership Team. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of such equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions (with a corresponding movement in equity).

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

Long Term Incentive Plan ("LTIP")

The Group has made a number of awards pursuant to the LTIP.

	2022 LTIP option	2021 LTIP option	2020 LTIP option	2019 LTIP option
Outstanding at 1 January 2022	–	264,981	360,565	364,278
Granted during the year	302,037	–	–	–
Vested during the year	–	–	–	(145,382)
Lapsed during the year	–	(9,231)	(17,978)	(218,896)
Outstanding at 31 December 2022	**302,037**	**255,750**	**342,587**	**–**
Exercisable at 31 December 2022	–	–	–	145,382

The options outstanding and exercisable at the year-end have a weighted average remaining contractual life of 8.34 years.

The options granted in 2022 and 2021 will vest subject to the following performance conditions based on EPS being met:

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

The 2020 and 2019 options were subject to the following performance conditions based on EPS being 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

All options granted are subject to the same TSR performance criteria as per the table below:

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%

Notes to the Company Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2022

13. Share-based payments (CONTINUED)

2022 LTIP Options

On 28 April 2022, the Board approved the grant of nil-cost options under the LTIP over a total of 302,037 ordinary shares with a nominal value of 20.0 pence per share which were awarded to the Company's Executive Directors and certain members of the Senior Executive Team and Leadership Team. The LTIP awards will vest on 1 July 2025 subject to the performance criteria being met over the three-year financial period ending 30 June 2025. On vesting, awards can be exercised until 28 April 2032, being the tenth anniversary of the date of grant.

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

Inputs into the option pricing models were as follows:

Weighted average share price	£3.23
Weighted average exercise price	£Nil
Expected volatility	30.1%
Expected life	3.2 years
Expected dividend yield	1.24%
Fair value per option – EPS tranche	£3.10
Fair value per option – TSR tranche	£2.57
Risk-free rate	1.58%

2021 LTIP Options

On 5 November 2021, nil-cost options over a total of 264,981 ordinary shares with a nominal value of 20p per share were awarded to certain members of the Senior Executive Team and Group Leadership Team. During the year 9,231 of the options lapsed due to cessation of employment, leaving 255,750 options outstanding.

The awards will normally vest three years after the date of grant subject to the performance criteria being met over the three-year financial period ending 31 December 2024. On vesting, awards can be exercised until 5 November 2031, being the tenth anniversary of the date of grant.

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

Inputs into the option pricing models were as follows:

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

2020 LTIP Options

On 17 November 2020, nil-cost options over a total of 377,120 ordinary shares with a nominal value of 20p per share were awarded to certain members of the Senior Executive Team and Group Leadership Team. During 2021, 16,555 of the options lapsed due to cessation of employment. During 2022, a further 17,978 options lapsed, leaving 342,587 options outstanding.

The awards will normally vest three years after the date of grant subject to the performance criteria being met over the three-year financial period ending 31 December 2023. On vesting, awards can be exercised until 17 November 2030, being the tenth anniversary of the date of grant.

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 LTIP was 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%

2019 LTIP Options

On 6 June 2019, nil-cost options over a total of 425,279 ordinary shares with a nominal value of 20p per share were awarded to certain members of the Senior Executive Team and Group Leadership Team. On 29 June 2020, a further grant of 14,076 ordinary shares was made to a member of the Group Leadership Team pursuant to the same performance and vesting criteria as the 2019 LTIP options. During 2020 and 2021, 56,488 and 18,589 options lapsed respectively due to cessation of employment, leaving 364,278 options outstanding as at 1 January 2022.

On 23 March 2022, 20,187 options lapsed due to cessation of employment. On 6 June 2022, 145,382 options granted on 6 June 2019 vested, with the remaining 198,709 options lapsed. These vested options have yet to be exercised; the participants have 6.4 years in which to exercise these options.

Details of the performance targets set and actual achievement against them in respect of the 2019 LTIP awards vesting, based on three-year performance to 31 December 2021, are set out in the table below:

Performance measure	Weighting	Performance period end	Threshold (25% vesting)	Maximum (100% vesting)	Actual	% vesting for this part of the award
Underlying EPS	50%	31 December 2021	12.8p	14.7p	12.0p	0%
TSR	50%	31 December 2021	Median	Upper quartile	Between median and upper quartile	83.0%

Notes to the Company Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2022

13. Share-based payments (CONTINUED)

Identicare share-based payment arrangement

As disclosed and detailed within note 26 to the Consolidated Financial Statements, during the year, the Group entered into a share-based payments arrangement in respect of growth shares issued in its subsidiary, Identicare Limited ("Identicare"). Given the terms applied to the shares, the Group has accounted for these as equivalent to redeemable shares, and as a result of the requirement for ongoing employment have applied the principles of IFRS 2 'Share-based payments' to the arrangement. The arrangement stipulates that a minimum of 50% of the shares are to be purchased in cash upon redemption, with the remaining 50% having choice of settlement, at the discretion of the Group, to either issue shares in the Group or purchase with further cash. In line with IFRS 2, 50% of the arrangement has therefore been accounted for as a cash-settled share-based payment arrangement, reflecting the Group's potential obligation to repurchase the shares in the event that no exit occurs, with the other 50% of the arrangement being treated as an equity-settled share-based payment due to there being no present obligation to settle in cash.

In the Company financial statements, the equity-settled element of the arrangement has been recognised with a corresponding credit to equity as the employing subsidiary, Identicare, receives services from employees as consideration for equity instruments in Animalcare Group plc.

The fair value of the equity-settled portion of the arrangement was £547k, determined at the date of issue of the shares using a Monte Carlo simulation, in conjunction with a third-party valuation specialist, taking into account the exit terms noted earlier.

The following inputs have been used to determine the fair value:

Valuation date	1 January 2022
Starting enterprise value	£6.9m
Closing net debt	£3.3m
Expected volatility	32.75%
Risk-free rate	0.72%
Expected dividend yield	0.00%
Expected life	3 years

The Company recognised a total charge in relation to share-based payments in respect of the Company's employees of £204,000 (2021: £235,000).

14 Related party transactions

Trading transactions

During the years ended 31 December 2022 and 31 December 2021, the following trading transactions took place between the Company and its subsidiaries.

2022	Ecuphar NV £'000	Ecuphar BV £'000	Animalcare Limited £'000	Identicare Limited £'000	Ecuphar GmbH £'000	Ecuphar Veterinaria SA £'000	Ecuphar Italia £'000	Belphar IDA £'000	Total £'000
Management charges levied/(received)	**915**	**–**	**(9)**	**–**	**–**	**57**	**27**	**7**	**997**
Current account interests levied/(received)	**66**	**–**	**(7)**	**–**	**4**	**–**	**–**	**–**	**63**
Other levied	**5**	**1**	**–**	**–**	**–**	**–**	**–**	**8**	**14**
Total	**986**	**1**	**(16)**	**–**	**4**	**57**	**27**	**15**	**1,074**

20221	Ecuphar NV £'000	Ecuphar BV £'000	Animalcare Limited £'000	Identicare Limited £'000	Ecuphar GmbH £'000	Ecuphar Veterinaria SA £'000	Ecuphar Italia £'000	Belphar IDA £'000	Total £'000
Management charges levied/(received)	933	–	42	–	–	9	15	9	1,008
Current account interests levied/(received)	9	–	(35)	–	–	–	–	–	(26)
Other levied	2	–	–	–	–	–	–	–	2
Total	944	–	7	–	–	9	15	9	984

Remuneration of key management personnel

Remuneration of the Executive Directors, who are the key management personnel, is provided in Note 4 and further disclosed below:

	For the year ended 31 December 2022 £'000	2021 £'000
Short term employment benefits	**672**	887
Post employment benefits	**22**	23
Share-based payments	**204**	235
Total remuneration	**898**	1,145

Short term employment benefits comprise £566k salaries (2021: £515k), £nil annual bonus (2021: £237k), £29k of benefits (2021: £26k) and £77k of employer social security contributions (2021: £109k).

Shareholder Notes

Directors and Advisers

Directors

D Hutchens
(appointed 10 February 2022)
C J Brewster
E Torr
J Boone
J Winter
Lord N Downshire
(ceased to be a Director on 7 June 2022)
M Coucke
Sylvia Metayer (appointed 3 May 2022)

Secretary

C J Brewster

Company Number

1058015

Registered Office

Moorside, Monks Cross
York
YO32 9LB

Independent Auditors

PricewaterhouseCoopers LLP
Central Square
29 Wellington Street
Leeds
LS1 4DL

Bankers

KBC UK
Corporate centre
111 Old Broad Street
EC2N 1BR

Solicitors

Squire Pattern Boggs (UK) LLP
6 Wellington Place
Leeds
LS1 4AP

Nominated Adviser and Joint Broker

Stifel Nicolaus Europe Ltd
150 Cheapside
London
EC2V 6ET

Joint Broker

Panmure Gordon & Co
One New Change
London
EC4M 9AF

Registrars

Link Asset Services
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Planting trees to catch carbon · Planting trees to catch carbon
22039900788
Printed on Carbon Captured paper

The production of this report supports the work of the Woodland Trust, the UK's leading woodland conservation charity. Each tree planted will grow into a vital carbon store, helping to reduce environmental impact as well as creating natural havens for wildlife and people.

Consultancy, design and production by:
jonesandpalmer.co.uk

Animalcare GROUP

Moorside
Monks Cross Drive
York
YO32 9LB, UK

T: +44 (0) 1904 487687
F: +44 (0) 1904 487611

communications@animalcaregroup.com

www.animalcaregroup.com