



ANNUAL REPORT

for the year ended
31 December 2019

**PARTNERING
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ANIMAL HEALTH**





INDEPENDENT AUDITOR'S 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 parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's loss and the group's and the parent company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company statements of financial position as at 31 December 2019; the consolidated income statement, consolidated statement of comprehensive income, the consolidated and company cash flow statements, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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.

Material uncertainty related to going concern – Group and Parent Company

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 3 to the group financial statements and note 1 to the parent company's financial statements concerning the group's and parent company's ability to continue as a going concern.

The Group's forecast cash flows contain assumptions over revenue, profitability and cash generation. These forecasts have been stress-tested for severe but plausible scenarios that could impact the Group. These show that in a more prolonged severe downturn there may be a potential breach of the leverage covenant for the Group's borrowing facility. If such a breach were to occur the Group would need to obtain a covenant relaxation or waiver from the Group's banking syndicate. This condition, along with the other matters explained in note 3 to the financial statements, indicates the existence of a material uncertainty which may cast significant doubt about the group's and parent company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and parent company were unable to continue as a going concern.

Explanation of material uncertainty

Management and the Board considered the potential impact of COVID-19 on the current and future operations of the business. In doing so, management focused on the Group's ability to continue as a going concern by performing a detailed bottom-up analysis of the impact of COVID-19 on revenue, EBITDA and cashflows. Management made

estimates and judgements that are critical to the outcome of these considerations. Three scenarios were modelled – a new base case and two further downside scenarios. This analysis has been used in conjunction with an assessment of the Group's liquidity and consideration of loan covenants.

Audit procedures performed

In assessing management's consideration of the potential impact of COVID-19, we undertook the following procedures:

- We obtained management's board report that details the Group's assessment and conclusions with respect to their ability to continue as a going concern;
- We assessed the initial 2020 (pre-COVID-19) budget as well as the new base case forecast and two further downside scenarios (each of which factor in COVID-19 overlays);
- We confirmed that the initial 2020 (pre-COVID-19) budget was board approved. In addition, we evaluated the historical accuracy of the budgeting process to assess the reliability of the data;
- In relation to the COVID-19 overlays, we held discussions with management to understand and challenge the rationale behind the assumptions made, using our knowledge of the business and industry;
- We reviewed the latest trading results for the year to date in 2020 and compared to management's original budget, FY19 actuals and revised forecasts, and considered the impact of these actual results on the future forecast period;
- We understood the mitigating actions taken by management, including suspending the final dividend payment;
- We reviewed management's sensitivity scenarios and we challenged management to run further downside scenarios in order to assess the possible impact of headroom against their borrowing facilities; and
- We reviewed the disclosures included within the Annual Report and consider these to be appropriate.

Our audit approach

Overview



- Overall group materiality: £325,000 (2018: £291,000), based on 2.5% of Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) excluding exceptional costs.
- Overall parent company materiality: £245,000 (2018: £250,000), based on 1% of net assets capped to less than group materiality.
- We, as the group engagement team, audited the two components based in the UK- being Animalcare Group plc and Animalcare Limited.
- The significant components based overseas, being Ecuphar N.V., Ecuphar Veterinaria S.L., and Ecuphar GmbH, have been audited by PwC component auditors. We were heavily involved at all stages of their audits by virtue of numerous communications throughout the process, including the issuance of detailed audit instructions and review and discussion of audit findings, in particular over our areas of focus.
- As a result of this scoping we obtained coverage over £58.8 million (83%) of the group's external revenues and £12.1 million (93%) of the group's Adjusted EBITDA.
- Going concern (Group and Parent Company) – Refer to Material uncertainty related to going concern section above.
- Risk of impairment to assets – Goodwill and acquired intangible assets (Group) and investments (Parent Company).
- Impact of COVID-19 (Group and Parent 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. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ANIMALCARE GROUP PLC

CONTINUED

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. In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p>Risk of impairment to assets – Goodwill (Group), acquired intangible assets (Group) and investments (Parent Company)</p> <p>The group has £50.4 million (2018: £50.9 million) of goodwill and £18.7 million (2018: £22.8 million) of acquired intangible assets. The parent company has investments of £147.7 million (2018: £147.7 million). The carrying value of goodwill is assessed by an annual impairment review with both intangible assets at a group level and the investment held by the parent company reviewed for indicators of impairment and if needed an impairment review performed. No impairment charge has been recorded by management in the current year for either goodwill and acquired intangible assets within the group and the investment balance within Animalcare Group plc. The risk we have focused on is that these non-current assets could be overstated and an impairment charge may be required.</p> <p>We focused on this area because the determination of whether or not these non-current assets are impaired involves subjective judgements and estimates about the future results and cash flows of the business.</p> <p>On an annual basis, management calculate the amount of headroom between the value in use of the group's Cash Generating Units ('CGUs') and their carrying value to determine whether there is a potential impairment of the goodwill and acquired intangibles relating to those CGUs.</p> <p>The value in use of the CGU with respect to goodwill and acquired intangibles within the group and the investment held in Animalcare plc is dependent on a number of key assumptions which include:</p> <ul style="list-style-type: none">• 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. <p>Management consider there to be just one CGU and therefore the same valuation performed is used to support the carrying values of the non-current assets for the group and parent company financial statements, adjusted to remove the parent company costs.</p> <p>See the accounting policies section within the financial statements for disclosure of the related accounting policies, judgements and estimates and Note 9 for detailed goodwill disclosures, Note 10 for detailed intangible disclosures within the consolidated financial statements and Note 6 within the company only financial statements.</p>	<p>We understood and evaluated management's budgeting and forecasting process. We obtained the group impairment analysis and tested the reasonableness of the key assumptions, including the following:</p> <ul style="list-style-type: none">• We tested the mathematical accuracy of the impairment model and agreed the carrying value of non-current assets being assessed for impairment to the balance sheet;• We challenged management's calculated group weighted average cost of capital (WACC) used for discounting future cashflows within the impairment model, utilising valuation experts to assess the cost of capital for the group and comparable organisations;• We traced the forecast financial information within the model to the latest Board approved budget and challenged management to provide support to corroborate trading assumptions, support for capital expenditure and considered the accuracy of previous forecasts;• We performed sensitivity analyses to ascertain the impact of reasonably possible changes in key assumptions and to quantify the downside changes needed before an impairment would be required at the CGU level; and• We have reviewed the financial statement disclosures made with respect to the sensitivity of the WACC, cashflows and growth rates. <p>In summary, we found, based on our audit work, the carrying value of goodwill, intangibles and investments to be acceptable. We also considered the disclosures made within the financial statements and considered these to be appropriate.</p>

Key audit matter	How our audit addressed the key audit matter
<p>Impact of COVID-19 – Group and Company</p> <p>COVID-19 was declared a global pandemic by the World Health Organisation on 11 March 2020 and the on-going response is having an unprecedented impact on the economy which was considered as part of the audit.</p> <p>The impact of the COVID-19 pandemic has been treated as a non-adjusting post balance sheet event for the Group and Parent Company.</p> <p>Because of its significance to the financial statements and to our audit, we determined that management’s consideration of the potential impact of COVID-19 on going concern is a key audit matter.</p>	<p>In assessing the directors’ consideration of the potential impact of COVID-19, our audit procedures included:</p> <ul style="list-style-type: none"> • Testing management’s going concern assessment and related disclosures in the financial statements, as explained in the Material uncertainties related to going concern section above. • Examining the directors’ post balance sheet events disclosure in note 28 to the group financial statements. We agreed with their conclusion that the impact of COVID-19 is a non-adjusting event. We also agreed with the directors’ assertion that it is not yet possible to quantify the impact. <p>Based on the results of the procedures performed, and on the information available as of the date of the directors’ approval of the financial statements and of our audit report, we concluded that material uncertainties exist which may cast significant doubt about the ability of the group and the company to continue as a going concern, as described in the Material uncertainties related to going concern section above.</p>



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ANIMALCARE GROUP PLC

CONTINUED

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 parent company, the accounting processes and controls, and the industry in which they operate.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Materiality

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

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

	Group financial statements	Company financial statements
Overall materiality	£325,000 (2018: £291,000).	£245,000 (2018: £250,000).
How we determined it	2.5% of Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) excluding exceptional costs.	1% of net assets capped to less than group materiality.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, Adjusted EBITDA is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	We believe that net assets are considered to be appropriate as it is not a profit oriented company. The company is a holding company only and therefore net assets is deemed a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £136,900 and £300,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £16,200 (Group audit) (2018: £14,500) and £12,000 (Parent company audit) (2018: £14,500) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform

procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 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 parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page [x], 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 parent 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 parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Ian Morrison (Senior Statutory Auditor)

for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory
Auditors
Leeds
29 May 2020



CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2019

		For the year ended 31 December					
		Underlying	Non-Underlying	Total	Underlying	Non-Underlying	Total
Notes		2019	(note 5)	2019	2018	(note 5)	2018
		£'000	2019	£'000	£'000	2018	£'000
Revenue	6	71,124	–	71,124	72,470	–	72,470
Cost of sales	7.1	(34,152)	–	(34,152)	(35,131)	–	(35,131)
Gross profit		36,972	–	36,972	37,339	–	37,339
Research and development expenses	7.2	(2,922)	(1,171)	(4,093)	(3,466)	(1,296)	(4,762)
Selling and marketing expenses	7.3	(11,862)	–	(11,862)	(12,435)	–	(12,435)
General and administrative expenses	7.4	(12,723)	(4,771)	(17,494)	(11,877)	(4,789)	(16,666)
Net other operating (expense)/income	7.5	(3)	(4,811)	(4,814)	43	(3,302)	(3,259)
Operating profit/(loss)		9,462	(10,753)	(1,291)	9,604	(9,387)	217
Financial expenses	7.8	(1,856)	–	(1,856)	(840)	–	(840)
Financial income	7.9	1,539	–	1,539	266	–	266
Profit/(loss) before tax		9,145	(10,753)	(1,608)	9,030	(9,387)	(357)
Income tax	7.10	(1,966)	2,236	270	(2,016)	2,151	135
Net profit/(loss) from continuing operations		7,179	(8,517)	(1,338)	7,014	(7,236)	(222)
Net profit/(loss) from discontinuing operations	4	–	–	–	40	(816)	(776)
Net profit/(loss)		7,179	(8,517)	(1,338)	7,054	(8,052)	(998)
Net profit/(loss) attributable to:							
The owners of the parent		7,179	(8,517)	(1,338)	7,056	(8,052)	(996)
Non-controlling interest		–	–	–	(2)	–	(2)
Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company:							
Basic earnings per share	8	12.0p		(2.2p)	11.7p		(0.4p)
Diluted earnings per share	8	12.0p		(2.2p)	11.7p		(0.4p)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:							
Basic earnings per share	8	12.0p		(2.2p)	11.8p		(1.7p)
Diluted earnings per share	8	12.0p		(2.2p)	11.8p		(1.7p)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	For the year ended 31 December	
	2019 £'000	2018 £'000
Net (loss)/profit for the year	(1,338)	(998)
Other comprehensive income		
Cumulative translation differences*	(795)	165
Other comprehensive income, net of tax	(795)	165
Total comprehensive (expense)/income for the year, net of tax	(2,133)	(833)
Total comprehensive (expense)/income attributable to:		
The owners of the parent	(2,133)	(831)
Non-controlling interest	-	(2)

* May be reclassified subsequently to profit & loss



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2019

	Notes	For the year ended 31 December	
		2019 £'000	2018 £'000
Assets			
Non-current assets			
Goodwill	9	50,454	50,937
Intangible assets	10	43,000	51,334
Property, plant and equipment	11	312	477
Right-of-use assets	22	1,917	–
Deferred tax assets	7.10	1,524	1,699
Other financial assets		59	59
Other non-current assets	13	72	294
Total non-current assets		97,338	104,800
Current assets			
Inventories	12	11,102	14,891
Trade receivables	13	10,891	13,084
Other current assets	13	2,746	2,736
Cash and cash equivalents	14	6,165	8,035
Total current assets		30,904	38,746
Total assets		128,242	143,546
Liabilities			
Current liabilities			
Borrowings	16	(612)	(648)
Lease liabilities	22	(830)	–
Trade payables	15	(10,334)	(11,907)
Tax payables		(1,288)	(1,016)
Accrued charges and deferred income	18	(2,063)	(2,325)
Other current liabilities	19	(2,799)	(3,864)
Total current liabilities		(17,926)	(19,760)
Non-current liabilities			
Borrowings	16	(21,428)	(30,975)
Lease liabilities	22	(1,106)	–
Deferred tax liabilities	7.10	(5,176)	(5,521)
Deferred income	18	(599)	(617)
Provisions	17	(118)	(81)
Total non-current liabilities		(28,427)	(37,194)
Total liabilities		(46,353)	(56,954)
Net assets		81,889	86,592
Equity			
Share capital	21	12,012	12,012
Share premium	21	132,729	132,729
Reverse acquisition reserve		(56,762)	(56,762)
Accumulated losses	21	(8,640)	(4,732)
Other reserves		2,550	3,345
Equity attributable to the owners of the parent		81,889	86,592
Non-controlling interest	21	–	–
Total equity		81,889	86,592

The accompanying notes on pages 61 to 96 form an integral part of these consolidated financial statements.

The financial statements of Animalcare Group plc on pages 56 to 60, registered number 01058015, were approved by the Board of Directors and authorised for issue on 29 May 2020. 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 2019

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

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

Reverse acquisition reserve

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

Other reserve

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



CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2019

For the year ended 31 December

	Notes	For the year ended 31 December	
		2019 £'000	2018 £'000
Operating activities			
(Loss)/profit before tax from continuing operations		(1,608)	(357)
(Loss)/profit before tax from discontinued operations	4	-	(776)
(Loss)/profit before tax		(1,608)	(1,133)
Non-cash and operational adjustments			
Depreciation of property, plant and equipment	11/22	1,270	333
Amortisation of intangible assets	10	8,222	7,965
Impairment of intangible assets	10	1,632	852
Impairment of goodwill	9	-	456
Share-based payment expense	25	72	12
(Gain)/loss on disposal of fixed assets		35	(2)
Non-cash movement in provisions		694	-
Loss on disposal of subsidiary	4	-	682
Doubtful debts and inventories written off		648	620
Financial income		(608)	(254)
Financial expense		1,250	879
Impact of foreign currencies		(330)	16
Non-cash movement on transition to IFRS 16	22	3	-
Other		(21)	2
Movements in working capital			
Decrease/(Increase) in trade receivables		3,098	(540)
Decrease/(Increase) in inventories		2,492	(1,207)
(Decrease)/increase in payables		(3,842)	904
Income tax received/(paid)		99	(2,155)
Net cash flow from operating activities		13,106	7,430
Investing activities			
Purchase of property, plant and equipment	11	(48)	(213)
Purchase of intangible assets	10	(2,343)	(4,568)
Proceeds from the sale of property, plant and equipment (net)		-	6
Proceeds from sale of subsidiary	4	-	2,403
Sale/(purchase) of available-for-sale financial investments		-	459
Net cash flow used in investing activities		(2,391)	(1,913)
Financing activities			
Repayment of loans and borrowings		(8,100)	(2,257)
Repayment of IFRS 16 lease liability	22	(1,053)	-
Receipts from issue of share capital		-	170
Dividends paid	21	(2,642)	(2,401)
Interest paid		(617)	(637)
Other financial (expense)/income		(27)	11
Net cash flow (used in)/from financing activities		(12,439)	(5,114)
Net (decrease)/increase of cash and cash equivalents		(1,724)	403
Cash and cash equivalents at beginning of year	14	8,035	7,579
Exchange rate differences on cash and cash equivalents		(146)	53
Cash and cash equivalents at end of year	14	6,165	8,035
Reconciliation of net cash flow to movement in net debt			
Net increase in cash and cash equivalents in the year		(1,724)	403
Cash flow from decrease/(increase) in debt financing		8,100	2,257
Foreign exchange differences on cash and borrowings		1,336	(349)
Movement in net debt in the year		7,712	2,311
Net debt at the start of the year		(23,588)	(25,908)
Debt transferred on sale of subsidiary	4	-	9
Lease liabilities at end of the year	22	(1,936)	-
Net debt at the end of the year		(17,812)	(23,588)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2019

1 Financial information

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

2 Basis of preparation

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

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

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Group’s accounting policies. The areas where significant judgments 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.

This is the first set of the Group’s annual financial statements in which IFRS 16 Leasing has been applied. Changes to significant accounting policies are described in note 3.

The consolidated financial statements cover the year ended 31 December 2019 and comprise the consolidated results of the Group described in note 1.

Reverse acquisition of Animalcare Group plc in 2017

As explained in depth in the Financial Statements of 2017 and 2018, on 13 July 2017 the Group completed the reverse acquisition of Ecuphar NV (“Ecuphar”). The accounting policy adopted by the Directors applied the principles of IFRS 3 (Revised) ‘Business Combinations’ in identifying the accounting parent as Ecuphar NV and the presentation of the Group consolidated statements of the Company (the legal parent) as a continuation of financial statements of the accounting parent or legal subsidiary (Ecuphar NV).

Wholesale divestment 2018

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

Restatement of segment information

Following review of the revenue by product category disclosures in the 2018 Annual Report, the 2018 comparative segmental information required by IFRS 8 has been restated to better align the classification of a small number of products to the markets in which they operate and are managed by the Group. As a result, Companion Animals revenue has increased by £1.5m, Production Animals decreased by £2.0m and Equine & other increased by £0.5m. There is no impact on total revenues.

3 Summary of significant accounting policies

Going concern

Accounting standards require that the Directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare the financial statements on a going concern basis. The uncertainty as to the future impact on the Group of the recent COVID-19 outbreak has been considered as part of the Group’s adoption of the going concern basis.

At 31 December 2019, the Group’s financing arrangements consisted of a committed revolving credit facility of €41.5m, a €10m acquisition line, which cannot be utilised to fund our operations, and €4.1m investment loans. All facilities mature in March 2022.

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

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

As at 31 December 2019, all covenant requirements were met with significant headroom across all three measures.

As at 30 April 2020, the net debt to underlying EBITDA ratio was approximately 1.3 times (31 December 2019: 1.4 times). Headroom on the banking facilities, including cash on balance sheet, was £25.8m (31 December 2019: £24.6m)

The Group entered the pandemic period in a strong financial position. In recent weeks we have seen an inevitable impact on the markets where we operate and a resulting downturn in demand starting in the second quarter.

While it’s too early to accurately assess the economic impact on the Group, the uncertain future impact of COVID-19 has been considered as part of the Group’s adoption of the going concern basis.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The Group has run a series of future trading scenarios to June 2021 to factor in a range of downside revenue estimates with mitigating actions on cost and cash flow. On revenue we modelled a rolling 12-month downturn of between 13% and 22% compared to 2019, with the most significant impact during a quarter in which lockdown measures are enforced. In the downside scenarios, a prolonged lockdown of six months, or a second wave mirroring Q2 2020, both with subsequent slower recovery, was considered.

To maintain our operational and financial resilience, we have already taken a number of steps to reduce or defer costs to align with revenue, carefully manage inventory in light of demand shifts and implement a capital expenditure freeze for all but essential projects, including key development programmes and manufacturing transfers.

As announced in our trading update of 25 March 2020, the Board deferred the payment of the final dividend. This decision will be reviewed later in the year once we have more clarity about the ongoing effects of the pandemic on our business. At that point the Board will consider what actions are in the best interests of all shareholders.

The results of these scenarios indicate that the Group would operate well within its committed revolving credit facility of €41.5m and maintain headroom against all covenant obligations throughout the period to June 2021. In the event that a covenant test is breached, we would need to work with our banking syndicate to obtain a covenant relaxation or waiver in order for the borrowing facilities to continue to be available. The Directors do, however, note the inherent uncertainty as to the future effect of COVID-19. Further stress testing showed that a potential more prolonged impact outside of those modelled in our future trading scenarios could result in a potential breach of the leverage covenant. In the event that a covenant test is breached, we would need to work with our banking syndicate to obtain a covenant relaxation or waiver in order for the borrowing facilities to continue to be available. The Directors note that this could represent a material

uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. However, the Directors are confident that they would be able to obtain this covenant waiver if required and, therefore, the Directors have a reasonable expectation that the Group will have sufficient cash flow and available resources to continue operating for at least 12 months from the approval date of these Financial Statements. Accordingly, the Directors continue to adopt the going concern basis of preparation.

The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

Basis for consolidation

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

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

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

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

previous subsidiary, then such interest is measured at fair value at the date the control is lost.

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

Non-underlying items

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

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

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

Non-controlling interests

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

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee. Operating segments are aggregated when they have

similar economic characteristics which is the case when there is similarity in terms of: (a) the nature of the products and services; (b) the nature of the production processes; (c) the type or class of customer for their products and services; (d) the methods used to distribute their products or provide their services; and (e) if applicable, the nature of the regulatory environment.

Foreign currency translation Functional and presentation currency

The Group's consolidated financial statements are presented in pounds sterling (GBP) which is the Group's presentational currency. For each entity, the Group determines the functional currency, and items included in the financial statements of each entity are measured using the functional currency. The functional currency of most subsidiaries of the Group is euros. The statement of financial position is translated into GBP at the closing rate on the reporting date and their income statement is translated at the average exchange rate at month-end for both the years ended December 2018 and 2019. Differences resulting from the translation of the financial statements of the parent and the subsidiaries are recognised in other comprehensive income as "cumulative translation differences".

Foreign currency transactions

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

Business combinations

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date at which the Group obtains control over the entity. The cost of an acquisition is measured as the amount of the consideration transferred to the seller, measured at the acquisition date fair value, and the amount of any non-controlling interest in the acquiree.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

The Group measures goodwill initially at cost at the acquisition date, being:

- the fair value of the consideration transferred to the seller, plus
- the amount of any non-controlling interest in the acquiree, plus
- if the business combination is achieved in stages, the fair value of existing equity interest in the acquiree remeasured at the acquisition date, less
- the fair value of the net identifiable assets acquired and assumed liabilities.

Goodwill is recognised as an intangible asset with any impairment in carrying value being charged to the consolidated income statement. Where the fair value of identifiable assets, liabilities and contingent liabilities exceeds the fair value of consideration paid, the excess is credited in full to the consolidated income statement on acquisition date.

Acquisition costs incurred are expensed and included in general and administrative expenses.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes borrowing costs directly attributable to construction projects if the asset necessarily takes a substantial period of time to get ready for its intended use, it is probable that they will result in future economic benefits to the Group and the cost can be measured reliably. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives

and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred.

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

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

Land is not depreciated.

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

Leases

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

The impact of the adoption of IFRS 16 "Leases" on the Group's financial statements is set out in note 22.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

Intangible assets

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

The useful life of the intangible assets is as follows:

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

Intangible assets acquired separately

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

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

Goodwill

Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of

an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

Internally generated intangible assets – research and development expenditures

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

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

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

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

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

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

Intangible assets acquired in a business combination

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

Impairment of non-financial assets

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

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

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods,

a long-term growth rate is calculated and applied to future cash flows projected after the fifth year.

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

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

Inventories

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

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

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

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

Financial assets

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

Financial assets measured at amortised cost

The Group has loans and receivables that are measured at amortised cost.

The Group's loans and receivables comprise trade and other receivables, other financial assets and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and – for the purpose of the statement of cash flows – bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.

Financial assets that are classified as loans and receivables are initially measured at fair value plus transaction costs and subsequently at amortised cost using the effective interest rate method (EIR). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included under financial income in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement under other operating expenses or financial expenses.

Available-for-sale financial assets measured at fair value

Available-for-sale financial assets relate to investments that are not initially acquired in view of a short-term sale (shares and securities) and that are not fully consolidated nor equity consolidated. Assets in this category are measured at fair value with the resulting gains and losses being directly recognised in other comprehensive income (equity).

Assets in this category are measured at cost when there is no price input available in an active market and the fair value cannot be measured reliably by applying alternative valuation methods.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an

incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

In cases of available-for-sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) or its current fair value, in cases of available-for-sale financial assets. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognised in the income statement. In the event of an impairment loss for available-for-sale financial assets, the accumulated impairment loss is removed from other comprehensive income and recognised in the consolidated statement of profit or loss. Impairment losses on available-for-sale financial assets are not reversed.

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

Financial liabilities

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

Financial liabilities at amortised cost

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

Derivative financial liabilities

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

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

Derecognition

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

Offsetting of financial instruments

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

Share capital

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

Dividends

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

Share-based payments

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

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

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

Provisions

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

Employee benefits

Short-term employee benefits

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

Management incentive plans

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

Post-employment benefits

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

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

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

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

Employee benefits – Pensions

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

Revenue recognition

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

Sales of goods and services

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

Interest income

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

Financing costs

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

Other financial income and expenses

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

Taxes

Current income tax

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

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

Deferred tax

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

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

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

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

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

Fair value measurements

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

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 2019

The Group applied IFRS 16 for the first time from 1 January 2019. Except for IFRS 16, 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.

IFRS 16 Leases

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the year 2018, as permitted under the specific transitional provisions in the standard.

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

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

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

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

In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Group will perform additional depreciations on the right-of-use assets of onerous contracts.

There is no significant impact on the Group's finance leases.

The Group applied IFRS 16 initially on 1 January 2019, using the modified retrospective approach with the Right-of-Use asset equal to the lease liability. Therefore, the comparative information has not been restated.

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

The impact of the adoption of IFRS 16 "Leases" on the Group's financial statements is set out in note 22.

Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2019

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.

- Business Combinations (Amendments to the guidance of IFRS 3), effective 1 January 2020 (not yet endorsed by the EU as at 31 December 2019).
- Amendments to the definition of material in IAS 1 and IAS 8, effective 1 January 2020 (not yet endorsed by the EU as at 31 December 2019).
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform, effective 1 January 2020 (not yet endorsed by the EU as at 31 December 2019).
- Amendments to references to the Conceptual Framework in IFRS standards (applicable for annual periods beginning on or after 1 January 2020, but not yet endorsed in the EU)
- IFRS 17 Insurance Contracts, effective 1 January 2021 (not yet endorsed by the EU as at 31 December 2019).

Significant accounting judgements, estimates and assumptions

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

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

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

Internally developed intangible assets

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

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

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

Income taxes

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

As at 31 December 2019, the Group had £759k (2018: £788k) of tax losses carried forward and other tax credits such as investment tax credits and notional interest deduction. These losses relate to the subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group.

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

Impairment of goodwill

The Group has goodwill for a total amount of £50,454k (2018: £50,937k) which has been subject to an impairment test. The goodwill is tested for impairment based on the Value In Use (VIU). The key assumptions for the VIU calculations are disclosed and further explained in note 9.

Impairment of slow-moving and obsolete inventory

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



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4 Business combinations and disposals of subsidiaries

Disposal of subsidiaries

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

The Group recognised a loss including expenses in relation to the disposal of £682k during the year ended 31 December 2018. This is based on the total consideration of £2,989k and unaudited net asset value of £3,622k, excluding intercompany debt.

The Group received an initial cash consideration of £2,413k including intercompany loan balances due from the Wholesale Division to other Animalcare Group plc companies. A further £362k was payable to the Group on 30 June 2019 in relation to the remaining intercompany balance owned. For further information concerning the payable to the Group we refer to note 13.

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

	Continuing operations 2018 £'000	Discontinued operations 2018 £'000	Consolidation adjustments 2018 £'000	Total continuing and discontinued operations 2018 £'000
Revenue	72,470	16,572	(719)	88,323
Cost of sales	(35,131)	(15,059)	689	(49,501)
Gross profit	37,339	1,513	(30)	38,822
Research and development expenses	(4,762)	–	–	(4,762)
Selling and marketing expenses	(12,435)	(1,111)	46	(13,500)
General and administrative expenses	(16,666)	(387)	(18)	(17,071)
Net other operating expenses	(3,259)	(761)	2	(4,018)
Operating profit/(loss)	217	(746)	–	(529)
Financial expenses	(840)	(39)	20	(859)
Financial income	266	9	(20)	255
Loss before tax	(357)	(776)	–	(1,133)
Income tax	135	–	–	135
Net loss	(222)	(776)	–	(998)

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

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

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

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



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5 Non-underlying items

	For the year ended 31 December	
	2019 £'000	2018 £'000
Amortisation and impairment of acquisition related intangibles		
Classified within research and development expenses	1,171	1,296
Classified within general and administrative expenses	4,771	4,789
Classified within net other operating expenses	1,619	513
Total amortisation and impairment of acquisition-related intangibles	7,561	6,598
Restructuring costs	1,795	1,235
Acquisition and integration costs	550	485
Impairment on goodwill and intangibles	–	796
Brexit-related costs	243	–
Divestments and business disposals	173	–
Other non-underlying items	431	273
Total non-underlying items before taxes	10,753	9,387
Tax impact	(2,236)	(2,151)
Total non-underlying items after taxes from continuing operations	8,517	7,236
Other non-underlying items from discontinued operations	–	134
Loss on disposal	–	682
Total non-underlying items after taxes	8,517	8,052

The amortisation charge of acquisition-related intangibles largely relates to the Esteve acquisition of £2,020k (2018: £2,037k), the Riemser acquisition of £369k (2018: £372k) and the reverse acquisition of Animalcare Group plc of £3,629k (2018: £3,676k).

During the year the Group incurred restructuring costs of £1,795k. This principally relates to the R&D and technical and regulatory team centralisation which resulted in a headcount reduction in the UK and Spain.

The impairment charge of £1,619k for acquisition related intangibles relates to an impairment of projects within the R&D pipeline who are deemed no longer economically viable due to technical difficulties in the development process.

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

6 Segment information – from continuing operations

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

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

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

The following table summarises the segment reporting from continuing operations for 2019 and 2018. As management’s controlling instrument is mainly revenue-based, the reporting information does not include assets and liabilities by segment and is as such not presented per segment.

For details on the impact of the adoption of IFRS 16, please see note 22.

	Pharma £'000
For the year ended 31st December 2019	
Revenues	71,124
Gross Margin	36,972
Gross Margin %	52%
Segment underlying EBITDA	13,137
Segment underlying EBITDA %	18%
Segment EBITDA	9,925
Segment EBITDA %	14%
For the year ended 31st December 2018	
Revenues	72,470
Gross Margin	37,339
Gross Margin %	52%
Segment underlying EBITDA	11,798
Segment underlying EBITDA %	16%
Segment EBITDA	9,805
Segment EBITDA %	14%

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

	For the year ended 31 December	
	2019 £'000	2018 £'000
Segment EBITDA	9,925	9,805
Depreciation, amortisation and impairment	(11,216)	(9,588)
Operating profit	(1,291)	217
Financial expenses	(1,856)	(840)
Financial income	1,539	266
Income taxes	36	(869)
Deferred taxes	234	1,004
Net (loss)/profit	(1,338)	(222)



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

	For the year ended 31 December	
	2019 £'000	2018 £'000
Belgium	14,325	18,423
Spain	2,424	2,127
Portugal	3,997	4,122
UK	70,572	73,913
Other	4,496	4,379
Non-current assets excluding deferred tax assets and financial instruments	95,814	102,964

Revenue by product category

	For the year ended 31 December	
	2019 £'000	2018 (Restated) £'000
Companion animals	46,464	46,018
Production animals	18,844	20,793
Horses	5,681	5,212
Petfood, Instrumentation and Services	135	447
Total	71,124	72,470

At 31 December 2019, the figures for the year ended 31 December 2018 have been restated (see note 2).

Revenue by geographical area

	For the year ended 31 December	
	2019 £'000	2018 £'000
Belgium	9,303	8,260
The Netherlands	2,106	1,719
United Kingdom	14,137	16,802
Germany	10,337	9,784
Spain	18,644	20,706
Italy	6,142	4,984
Portugal	4,598	4,600
European Union – other	4,925	4,652
Asia	471	558
Middle East Africa	44	139
Other	417	266
Total	71,124	72,470

Revenue by category

	For the year ended 31 December	
	2019 £'000	2018 £'000
Product sales	69,946	71,025
Services sales	1,178	1,445
Total	71,124	72,470

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

7 Income and expenses – from continuing operations

7.1 Cost of sales – from continuing operations

Cost of sales includes the following expenses:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Purchase of goods and services	33,079	33,840
Inventory and other write-downs	286	337
Payroll expenses	308	222
Other expenses	479	732
Total	34,152	35,131

7.2 Research and development expenses – from continuing operations

Research and development expenses include the following:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Amortisation and depreciation	1,597	1,398
Payroll expenses	1,516	2,025
Other R&D expenses	980	1,339
Total	4,093	4,762

7.3 Selling and marketing expenses – from continuing operations

Selling and marketing expenses include the following:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Transport costs of sold goods	905	1,031
Promotion costs	2,192	2,160
Payroll expenses	7,921	8,516
Amortisation and depreciation	16	17
Other	828	711
Total	11,862	12,435



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7.4 General and administrative expenses – from continuing operations

General and administrative expenses include the following:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Amortisation and depreciation	7,866	6,828
Payroll expenses	3,553	3,264
Other	6,075	6,574
Total	17,494	16,666

7.5 Net other operating expenses – from continuing operations

The net other operating expenses can be detailed as follows:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Re-invoicing costs	(17)	(24)
Gains/losses on disposals of fixed assets	3	(1)
Other operating income	(94)	(39)
Impairments	1,632	1,308
Other operating expenses	3,290	2,015
Total	4,814	3,259

The non-cash impairment charge of £1,632k (2018: £1,308k) relates to impairment of acquired or in-process R&D due to regulatory issues (2018: £852k). In 2018 the impairment of goodwill in respect of the non-core Orthopaedics business in Benelux (£456k) was the second part of the impairment.

Other operating expenses for 2019 and 2018 principally relate to restructuring and integration costs.

7.6 Expenses by nature – from continuing operations

	For the year ended 31 December	
	2019 £'000	2018 £'000
Other operating lease rentals	671	1,659
Employee expenses	12,990	13,805
Depreciation and amortisation	9,479	8,298
Transport costs sold goods	905	1,031
Promotion costs	2,192	2,160
Other operating expense/(income) – note 7.5	4,814	3,259
Other expenses	7,212	6,910
Total expenses	38,263	37,122

7.7 Payroll expenses – from continuing operations

The following table shows the breakdown of payroll expenses for 2019 and 2018:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Wages and salaries	11,306	11,696
Social security costs	1,770	2,048
Other pension costs	222	283
Total	13,298	14,027
The monthly average number of employees during the year was as follows:		
Sales and administration	200	149
Distribution	13	95

The payroll expenses for the year are impacted by the share-based payments. For more information we refer to note 25.

7.8 Financial expenses – from continuing operations

Financial expenses include the following elements:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Interest expense	618	637
Foreign currency losses	1,120	119
Other financial expenses	118	84
Total	1,856	840

7.9 Financial income – from continuing operations

Financial income includes the following elements

	For the year ended 31 December	
	2019 £'000	2018 £'000
Foreign currency exchange gains	1,509	192
Income from financial assets	30	–
Other financial income	–	74
Total	1,539	266



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7.10 Income tax – from continuing operations

Income tax

The following table shows the breakdown of the tax expense for 2019 and 2018:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Current tax charge	(617)	(963)
Tax adjustments in respect of previous years	653	94
Total current tax charge	36	(869)
Deferred tax – origination and reversal of temporary differences	272	597
Deferred tax – adjustments in respect of previous years	(38)	407
Total deferred tax credit	234	1,004
Total tax income/(expense) for the year	270	135

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

	For the year ended 31 December	
	2019 £'000	2018 £'000
Loss before tax	(1,608)	(357)
Tax at 19.00% (2018: 19.00%)	305	68
Effect of:		
Overseas tax rates	(181)	(64)
Non-deductible expenses	(146)	(156)
Income not subject to tax	31	215
Derecognition of formerly recognised deferred tax assets	(3)	–
Other permanent tax differences	–	(133)
Other taxes	(60)	(38)
Use of tax losses previously not recognised	109	–
Changes in statutory enacted tax rate	27	(15)
Tax adjustments in respect of previous year	615	501
Non-recognition of deferred tax on current year losses	(429)	(195)
Share-based deductions	(6)	(48)
Other	8	–
Income tax expense as reported in the consolidated income statement	270	135

The tax credit of £2,236k (2018: £2,151k) shown within “non-underlying items” on the face of the consolidated income statement, which forms part of the overall tax credit of £270k (2018: £135k) relates to the items in note 5.

The tax rates used for the 2019 and 2018 reconciliation above are the corporate tax rates of 29.58% (Belgium), 25.00% (the Netherlands), 30.70% (Germany), 33.00% (France), 25.00% (Spain), 24.00% (Italy), 21.00% (Portugal) and 19.00% (the United Kingdom). These taxes are payable by corporate entities in the above mentioned countries on taxable profits under tax law in that jurisdiction.

Changes to the UK corporation tax rate were substantially enacted as part of the Finance Bill 2017 (on 6 September 2016).

They include reductions to the main rate to reduce the rate to 17.00% from 1 April 2020.

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

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

Deferred tax

(a) Recognised deferred tax assets and liabilities

	Assets		Liabilities		Total	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Goodwill	(7)	23	(765)	(632)	(772)	(609)
Intangible assets	719	834	(4,490)	(4,969)	(3,771)	(4,135)
Property, plant and equipment	(244)	45	(155)	(43)	(399)	2
Financial fixed assets	1	1	-	-	1	1
Inventory	(8)	3	(21)	(21)	(29)	(18)
Trade and other payables/receivables	3	3	(1)	43	2	46
Borrowings	295	-	112	-	407	-
Accruals and deferred income	6	-	-	-	6	-
Tax losses carried forward	759	790	144	101	903	891
Total	1,524	1,699	(5,176)	(5,521)	(3,652)	(3,822)

(b) Movements during the year

Movement of deferred taxes during 2019:

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

Movement of deferred taxes during 2018:

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



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Tax losses

The Group has unused tax losses, tax credits and notional interest deduction available in an amount of £3,014k for 2019 (2018: £3,141k).

Deferred tax assets have been recognised on available tax losses carried forward for some legal entities, resulting in amounts recognised of £759k (2018: £788k). This was based on management's estimate that sufficient positive taxable basis will be generated in the near future for the related legal entities with fiscal losses.

8 Earnings per share

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

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

Profit/(loss) from continuing and discontinuing operations

	For the year ended 31 December			
	2019 Underlying £'000	2018 Underlying £'000	2019 Total £'000	2018 Total £'000
Net profit/(loss) from continuing operations	7,179	7,014	(1,338)	(222)
Net profit/(loss) from discontinuing operations	-	40	-	(774)
Net profit attributable to ordinary equity holders of the parent adjusted for the effect of dilution	7,179	7,054	(1,338)	(996)

Average number of shares (basic and diluted)

	For the year ended 31 December			
	2019 Underlying	2018 Underlying	2019 Total	2018 Total
Number of shares				
Weighted average number of ordinary shares for basic earnings per share	60,057,161	60,008,714	60,057,161	60,008,714
Dilutive potential ordinary shares	-	5,452	-	5,452
Weighted average number of ordinary shares adjusted for effect of dilution	60,057,161	60,014,166	60,057,161	60,014,166

Basic earnings/(loss) per share

	For the year ended 31 December			
	2019 Underlying in pence	2018 Underlying in pence	2019 Total in pence	2018 Total in pence
From continuing operations attributable to the ordinary equity holders of the Company	12.0	11.7	(2.2)	(0.4)
From discontinued operation	0.0	0.1	0.0	(1.3)
Total basic earnings per share attributable to the ordinary equity holders of the Company	12.0	11.8	(2.2)	(1.7)

Diluted earnings/(loss) per share

	For the year ended 31 December			
	2019 Underlying in pence	2018 Underlying in pence	2019 Total in pence	2018 Total in pence
From continuing operations attributable to the ordinary equity holders of the Company	12.0	11.7	(2.2)	(0.4)
From discontinued operation	0.0	0.1	0.0	(1.3)
Total basic earnings per share attributable to the ordinary equity holders of the Company	12.0	11.8	(2.2)	(1.7)

9 Goodwill

On acquisition, goodwill acquired in a business combination is allocated to the cash-generating units which are expected to benefit from that business combination. Following the disposal of the wholesale division during 2018, there is now only one cash-generating unit to allocate the acquired goodwill to, being the pharmaceuticals division. The goodwill has been allocated to the cash-generating unit ("CGU") as follows:

	For the year ended 31 December	
	2019 £'000	2018 £'000
CGU: Pharmaceuticals	50,454	50,937
Total	50,454	50,937

The changes in the carrying value of the goodwill can be presented as follows for the years 2019 and 2018:

	2018 £'000
At 1st January 2018	51,413
Disposals	(106)
Other	(456)
Currency translation	86
At 31st December 2018	50,937
Currency translation	(483)
At 31st December 2019	50,454

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

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

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

	2019	2018
Discount rate (pre-tax) %	11.8	10.5
Growth rate (in perpetuity) %	2.0	2.0

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

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

A 1.0% increase in discount rates would cause the value in use of the CGU to reduce by £17 million 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 £12.7 million, but would not give rise to an impairment.

The CGU is robust to small reductions in short-term cash flows, whether driven by lower sales growth, lower operating profits or lower cash conversion. A 44.0% reduction in total annual cash flows would give rise to an impairment of £100k. An increase in discount rates to 17.1% or a reduction in perpetuity growth rates to (9.6%) would each give rise to an impairment in the CGU of £100k.



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10 Intangible assets

The changes in the carrying value of the intangible assets can be presented as follows for the years 2019 and 2018:

	In-Process R&D £'000	Patents, distribution rights and licences £'000	Product portfolios and product development costs £'000	Capitalized software £'000	Total £'000
Acquisition value					
At 1st January 2018	13,518	17,685	39,875	717	71,795
Additions	3,525	1,340	670	452	5,987
Change due to business combinations	–	(29)	(5)	–	(34)
Currency translation	36	104	128	12	280
Other	–	8	–	–	8
At 31st December 2018	17,079	19,108	40,668	1,181	78,036
Additions	1,582	251	208	302	2,343
Disposals	(1,830)	(62)	(46)	–	(1,938)
Transfers	(88)	(136)	(3)	88	(139)
Currency translation	(217)	(723)	(826)	(61)	(1,827)
Other	1,395	–	(1,395)	6	6
At 31st December 2019	17,921	18,438	38,606	1,516	76,481
Amortisation					
At 1st January 2018	(1,241)	(4,990)	(11,241)	(286)	(17,758)
Amortisation charge	(1,423)	(2,716)	(3,504)	(322)	(7,965)
Change due to business combinations	–	29	3	–	32
Impairments	(852)	–	–	–	(852)
Transfers	–	–	–	(15)	(15)
Currency translation	(10)	(64)	(76)	(6)	(156)
Other	(10)	20	2	–	12
At 31st December 2018	(3,536)	(7,721)	(14,816)	(629)	(26,702)
Amortisation charge	(1,546)	(2,851)	(3,490)	(335)	(8,222)
Disposals	1,828	62	13	–	1,903
Impairments	(1,632)	–	–	–	(1,632)
Currency translation	–	136	3	–	139
Transfers	72	405	521	39	1,037
Other	1	–	–	(5)	(4)
At 31st December 2019	(4,813)	(9,969)	(17,769)	(930)	(33,481)
Net carrying value					
At 31st December 2019	13,108	8,469	20,837	586	43,000
At 31st December 2018	13,543	11,387	25,852	552	51,334

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

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

The total amortisation charge for 2019 is £8,222k (2018: £7,965k) which is included in lines cost of sales, research and development expenses, sales and marketing expenses and general and administrative expenses of the consolidated income statement. Included in the total amortisation and impairment charge is £7,561k (2018: £6,598k) relating to acquisition related intangibles.

In 2019, Animalcare Group plc recorded an impairment charge of £1,632k (2018: £852k).

In the total additions of £2,343k in 2019 (2018: £5,987k), an amount of £237k (2018: £1,419k) is included for the expected contractual pay-outs under a licence agreement over a two-year period starting on 1st January 2019.

11 Property, plant and equipment

The changes in the carrying value of the property, plant and equipment can be presented as follows for 2019 and 2018:

	Equipment £'000	Office furniture and equipment £'000	Warehouse and office fitting £'000	Leasehold improvements £'000	Total £'000
Acquisition value					
At 1st January 2018	739	1,690	62	528	3,019
Additions	7	204	–	2	213
Change due to business combinations	(138)	(455)	(62)	(39)	(694)
Disposals	–	(46)	–	–	(46)
Currency Translation	2	12	–	3	17
At 31st December 2018	610	1,405	–	494	2,509
Additions	22	18	2	6	48
Disposals	1	–	(2)	–	(1)
Currency Translation	(12)	(59)	–	(15)	(86)
Other	(228)	225	184	(186)	(5)
At 31st December 2019	393	1,589	184	299	2,465
Depreciation					
At 1st January 2018	(567)	(1,263)	(36)	(328)	(2,194)
Depreciation charge for the year	(52)	(218)	(6)	(57)	(333)
Disposals	–	43	–	–	43
Transfers	–	–	–	15	15
Change due to business combinations	114	258	42	36	450
Currency Translation	(2)	(9)	–	(2)	(13)
At 31st December 2018	(507)	(1,189)	–	(336)	(2,032)
Depreciation charge for the year	(36)	(113)	(19)	(34)	(202)
Disposals	4	(3)	–	–	1
Currency translation	10	52	–	12	74
Other	191	(186)	(105)	106	6
At 31st December 2019	(338)	(1,439)	(124)	(252)	(2,153)
Net book value					
At 31st December 2019	55	150	60	47	312
At 31st December 2018	103	216	–	158	477

The investment in property, plant and equipment in 2019 amounted to £48k (2018: £213k) and mainly related to the acquisitions of IT and office equipment.

The Group realised a net gain on disposals of property, plant and equipment of £nil in 2019 (2018: £2k). No impairment of property, plant and equipment was recorded in 2018.



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Finance leases

The carrying value of assets held under finance leases at 31 December 2019 was £60k (2018: £0k). Finance leases mainly related to leased trucks. For a detailed reconciliation of finance lease positions as per 31 December 2018 in accordance with IAS 17 towards IFRS16 lease positions as of 1st January 2019, we refer to note 22.

Borrowing costs

No borrowing costs were capitalised during the year ended 31 December 2019 or 31 December 2018.

12 Inventories

Inventories include the following:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Raw materials	837	1,322
Goods purchased for resale	10,265	13,569
Total inventories (at cost or net realisable value)	11,102	14,891

The amount of inventory recognised as an expense during 2019 amounts to £33,078k (2018: £33,840k). Inventory write-downs during 2019 amounted to £573k (2018: £504k). These costs are classified as a part of the costs of goods sold.

13 Amounts receivable and other non-current assets

Trade receivables include the following:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Trade receivables	10,971	13,163
Allowance on trade receivables	(80)	(79)
Total	10,891	13,084

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

As at 31 December 2019, trade receivables of an initial value of £80k (2018: £79k) were impaired and fully provided for. The table below shows the changes in the allowance of receivables.

	£'000
At 1st January 2018	(131)
Change due to business combinations	15
Reimbursement of receivables	38
Exchange difference	(1)
At 31st December 2018	(79)
Additional impairments	(32)
Reversal impairment	13
Reclassification	14
Exchange difference	4
At 31st December 2019	(80)

Other current assets include the following:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Other receivables	2,270	2,051
Deferred charges	476	685
Total	2,746	2,736

Other current assets amount to £2,746k (2018: £2,736k) at the end of the reporting year and mainly include reclaimable taxes and a receivable resulting from the sale of the Wholesaling business. On 3rd September 2018, Ecuphar NV sold the wholesale business Medini NV to Vetdis Holding NV (Vetdis) under a Share Purchase Agreement (SPA). In June 2019, Vetdis sent a letter to Ecuphar claiming that Ecuphar had breached the SPA. Ecuphar disputes the majority of the claim; however, Ecuphar considers it likely that a part of the claim, amounting to €126,430, may be valid. Under the SPA, Vetdis had an obligation to pay Ecuphar €377,854 plus interest on 30th June 2019; Vetdis has refused to pay this. Ecuphar believes that Vetdis has no reason not to pay the amount of €377,854 and Ecuphar has recorded it as a receivable. Ecuphar has offset against this receivable the amount of €126,430 that may be validly due to Vetdis. Discussions are continuing with Vetdis.

Deferred charges mainly include charges to be carried forward totaling £476K (2018: £364K prepayments).

	For the year ended 31 December	
	2019 £'000	2018 £'000
Other non-current assets	72	294

For the year ended 31 December 2018 other non-current assets mainly include a receivable of £214k arising on the sale of the Wholesaling business in 2018. In 2019 this receivable was reclassified to other receivables.

14 Cash and cash equivalents

Cash and cash equivalents include the following:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Cash at bank	6,164	8,034
Cash equivalents	1	1
Total	6,165	8,035

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 2019 and 2018.

15 Trade payables

	For the year ended 31 December	
	2019 £'000	2018 £'000
Trade payables	10,334	11,907
Total	10,334	11,907

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



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16 Borrowings

The loans and borrowings include the following:

	Interest rate	Maturity	For the year ended 31 December	
			2019 £'000	2018 £'000
Other loans	1.56%		9	22
Revolving credit facilities	Euribor +1.50%	March 22	16,845	25,513
Roll over investment facility	Euribor +1.50%	March 22	1,358	2,063
Acquisition loan	Euribor +1.75%	March 22	3,828	4,025
Lease liabilities	See note 22		1,936	–
Total loans and borrowings			23,976	31,623
Of which:				
Non-current			22,534	30,975
Current			1,442	648

Revolving credit facilities and roll over investment facilities

In mid-2016, the Group refinanced all of its outstanding investment loans with different banks. Financing arrangements were entered into with four Belgian banks. These financing arrangements have been split equally amongst these four banks. The current agreements consist of:

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

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 2022. The investment loans are repaid in 23 monthly instalments.

17 Provisions

Provisions consist of the following:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Provisions for compensation for damages	30	–
Provisions for risks and charges	88	81
Total	118	81

Provisions for risks and charges amount to £88k as at December 2019 (2018: £81k).

The assessment of the accounting treatment of the Belgian employee benefit contribution plans with a minimal guaranteed return was based on actuarial calculations which resulted in an immaterial impact as only a limited number of individuals can benefit from the plan given the limited fixed amount which is being covered per covered individual. No provision has been recognised as at 31 December 2019 and 2018. As a result no further disclosures have been provided.

Contingent liability relating to the sale of Medini NV

On 3 September 2018, Ecuphar NV sold the wholesale business Medini NV to Vetdis Holding NV under a Share Purchase Agreement (SPA). In June 2019, Vetdis sent a letter to Ecuphar claiming that Ecuphar had breached the SPA. Ecuphar disputes the basis and the value of the claim. Discussions are continuing with Vetdis. No formal legal proceedings have been issued against Ecuphar. The Company has not made any provision in respect of this matter in the financial statements.

18 Accrued charges and deferred income

Accrued charges and deferred income consists of the following:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Accrued charges	1,898	2,133
Deferred income – due within one year	173	190
Other	(8)	2
Total due within one year	2,063	2,325
Deferred income – due after one year	599	617

Accrued charges mainly relate to accrued product development expenses of £790k (2018: £1,188k) and several accrued charges relating to commissions and bonuses in Ecuphar Veterinaria for an amount of £294k (2018: £255k) and £261k (2018: £181k) for Belphar.

Deferred income are contract liabilities that arise from certain services sold by the Group's subsidiary Animalcare Ltd. In return for a single upfront payment, Animalcare Ltd commits to a fixed term contract to provide certain database, pet reunification and other support services to customers. There is no contractual restriction on the amount of times the customer makes use of the services. At the commencement of the contract, it is not possible to determine how many times the customer will make use of the services, nor does historical evidence provide indications of any future pattern of use. As such, income is recognised evenly over the term of the contract, currently between 8 and 14 years.

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

	For the year ended 31 December	
	2019 £'000	2018 £'000
Balance at the beginning of the year	807	999
Income deferred to following years	160	139
Release of income deferred from previous years	(195)	(331)
Balance at the end of the year	772	807

The deferred income liabilities fall due as follows:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Within one year	173	190
After one year	599	617
Balance at the end of the year	772	807

19 Other current liabilities

Other current liabilities include the following:

	For the year ended 31 December	
	2019 £'000	2018 £'000
Payroll-related liabilities	1,038	993
Indirect taxes payable	999	1,083
Other current liabilities	762	1,788
Total	2,799	3,864

As at 31 December 2019 other current liabilities mainly related to outstanding payables at the year-end for expected contractual pay-outs under a licence agreement £769k (2018: £1,419k).



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20 Fair value

Financial assets

The carrying value and fair value of the financial assets for 31 December 2019 and 2018 are presented as follows:

	Carrying value		Fair value	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Loans and receivables measured at amortised cost				
Trade and other receivables (current)	10,891	13,084	10,891	13,084
Trade and other receivables (non-current)	72	294	72	294
Other financial assets (non-current)	59	59	59	59
Other current assets	2,746	2,736	2,746	2,736
Cash and cash equivalents	6,165	8,035	6,165	8,035
Total loans and other receivables	19,933	24,208	19,933	24,208

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

- The carrying value of the cash and cash equivalents and the current receivables approximate their fair value due to their short-term character.
- The fair value of the financial assets at fair value through other comprehensive income was derived from market observable data, namely stock and foreign exchange market data (Level 1 inputs). The Group has no financial instruments carried at fair value in the statement of financial position on 31 December 2019 and 2018.
- 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 2019 and 2018.

Financial liabilities

The carrying value and fair value of the financial liabilities for 31 December 2019 and 2018 are presented as follows:

	Carrying value		Fair value	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Financial liabilities measured at amortised cost				
Borrowings	22,040	31,622	22,040	31,622
Lease liabilities	1,936	–	1,936	–
Trade payables	10,334	11,907	10,334	11,907
Other liabilities	6,748	7,823	6,748	7,823
Total financial liabilities measured at amortised cost	41,058	51,352	41,058	51,352
Total non-current	22,534	30,975	22,534	30,975
Total current	18,524	20,377	18,524	20,377

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

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

Fair value hierarchy

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

21 Equity

Share capital

	For the year ended 31 December	
	2019 £'000	2018 £'000
Number of shares		
Allotted, called up and fully paid Ordinary Shares of 20p each	60,057,161	60,057,161

	For the year ended 31 December	
	2019 £'000	2018 £'000
Number of shares		
Allotted, called up and fully paid Ordinary Shares of 20p each	12,012	12,012

The following share transactions have taken place during the year ended 31 December 2019:

	For the year ended 31 December 2019	
	£'000	£'000
At 1 January 2019	60,057,161	12,012
Exercise of share options	–	–
At 31 December 2019	60,057,161	12,012

Dividends

	For the year ended 31 December	
	2019 £'000	2018 £'000
Ordinary final dividend paid for the year ended 31 December 2017 of 2.0p per share	–	1,200
Ordinary interim dividend paid for the period ended 30 June 2018 of 2.0 per share	–	1,201
Ordinary final dividend paid for the period ended 31 December 2018 of 2.4p per share	1,441	–
Ordinary interim dividend paid for the period ended 30th June 2019 of 2.0 per share	1,201	–
	2,642	2,401

22 Changes to accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019. On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 Leases.

The Group leases various offices, vehicles and IT equipment. Rental contracts are typically made for fixed periods of 3 to 9 years, possibly with extension options; one contract has a lease term of more than 10 years. Lease terms are negotiated on an individual basis and contain a 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.

Until 1 January 2019, the Group recognised operating lease expenses on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the lessee's incremental borrowing rate. The Group's weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.20%.

Payments associated with short-term leases and 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.



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A reconciliation between IAS 17 and IFRS 16 is shown below for the position at 1 January 2019:

	£'000
Non-cancellable operating lease commitments disclosed as at 31 December 2018	2,760
Short-term and low-value leases recognised on a straight-line basis as expense	(62)
Weighted average incremental borrowing rate at 1st January 2019	3.2%
Discounted using the Group's incremental borrowing rate	2,606
Add: finance lease liabilities recognised as at 31 December 2018	22
Lease liability recognised as at 1st January 2019	2,628
Of which:	
Current lease liabilities	910
Non-current lease liabilities	1,718

All right-of-use assets were measured at the amount equal to the lease liability. There were no onerous contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The balance sheet shows the following amounts relating to leases as at 31 December 2019:

	31 December 2019 £'000	1st January 2019 £'000
Buildings	893	1,275
Vehicles	989	1,269
Other	35	84
Total right-of-use assets	1,917	2,628
Current lease liabilities	830	910
Non-current lease liabilities	1,106	1,718
Total lease liabilities	1,936	2,628

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

	Land and buildings	Vehicles	Other	Total
Acquisition value				
At 31 December 2018	–	–	–	–
Initial measurement at 1st January	1,275	1,269	84	2,628
Additions	28	424	–	452
Disposals and contract modifications	–	(56)	–	(56)
Currency Translation	(32)	(50)	(3)	(85)
At 31 December 2019	1,271	1,587	81	2,939
Depreciation				
At 31 December 2018	–	–	–	–
Depreciation charge for the year	(387)	(634)	(47)	(1,068)
Disposals and contract modifications	–	20	–	20
Currency translation	9	16	1	26
At 31 December 2019	(378)	(598)	(46)	(1,022)
Net book value	893	989	35	1,917

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

	Lease Liability £'000
At 1st January 2019	2,628
Additions	452
Disposals	(33)
Interest expense	74
Payments	(1,127)
CTA	(58)
At 31 December 2019	1,936

The following amounts are recognised in the income statement:

	For the year ended 31 December 2019 £'000
Depreciation expense of right-of-use assets	(1,068)
Interest expense on lease liabilities	(74)
(Loss)/gain on disposal of IFRS 16 assets	(3)
Expense relating to short-term leases and low-value assets	(119)
Total amount recognised in the income statement	(1,264)

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.

Impact on EBITDA and earnings per share

EBITDA and underlying EBITDA increased by £1,127k for the year 2019 as a result of the change in accounting policy. There is no material impact on net result and earnings per share for the year.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application, and;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.



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23 Risks

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

Credit risk

As at 31 December 2019 the Group's maximum exposure to credit risk is £10,891k, which is the amount of the trade receivables in the consolidated financial statements (2018: £13,084k).

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
31st December 2019	10,891	9,410	1,340	47	(9)	12	91
31st December 2018	13,084	10,034	2,461	344	99	26	120
Expected loss rate		0.1%	0.4%	0.3%	0.5%	1.7%	70.7%
Expected credit loss	80	11	5	0	0	0	64

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 2019, the Group had the following sources of liquidity available:

- Cash and cash equivalents: £6,165k
- Undrawn credit facilities with several banks: £(18,462)k
- Undrawn acquisition financing: £(4,679)k

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

	< 1 year £'000	1 to 3 years £'000	4-5 years £'000	> 5 years £'000	Total £'000
At 31st December 2019					
Borrowings	(612)	(21,428)	-	-	(22,040)
Lease liabilities	(830)	(493)	(677)	-	(2,000)
Trade payables	(10,334)	-	-	-	(10,334)
Other current liabilities	(2,799)	-	-	-	(2,799)
Total	(14,575)	(21,921)	(677)	-	(37,173)
	< 1 year £'000	1 to 3 years £'000	4-5 years £'000	> 5 years £'000	Total £'000
At 31st December 2018					
Borrowings	(648)	(30,975)	-	-	(31,623)
Trade payables	(11,907)	-	-	-	(11,907)
Other current liabilities	(3,864)	-	-	-	(3,864)
Total	(16,419)	(30,975)	-	-	(47,394)

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

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

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

Foreign exchange risk

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

	For the year ended 31 December			
	Assets 2019 £'000	Assets 2018 £'000	Liabilities 2019 £'000	Liabilities 2018 £'000
EUR/GBP	6,407	380	5,973	2,686
GBP/EUR	899		333	
EUR/USD	115	–	–	77
GBP/USD	7	352	350	87
EUR/DKK	–	–	1	7

The cumulative effect of the foreign currency translation effects is reported under other comprehensive income in the statement of financial position and amounts to £2,550k (2018: £3,345k).

At the end of the reporting year, the Group is mainly exposed to the EUR and the USD. The following table details the effect of a 10.00% increase and decrease in the exchange rate of these currencies against sterling when applied to outstanding monetary items denominated in foreign currency as at 31 December 2019. A positive number indicates that an increase in profit would arise from a 10.00% change in value of sterling against these currencies, a negative number indicates that a decrease would arise.

	Strengthening £'000	Weakening £'000
EUR	(3)	23
USD	31	(39)

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 £260k lower/higher in 2019 and £414k lower/higher in 2018.

Capital management

The primary objective of the Group's shareholders' capital management strategy is to ensure it maintains healthy capital ratios to support its business and maximise shareholder value. Additionally, minimum solvency ratios are agreed upon in the financing agreements. Capital is defined as the Group shareholder's equity which amounts to £81,889k as at 31 December 2019 (2018: £86,592k).

The Group consistently reviews its capital structure and makes adjustments in light of changing economic conditions and performances of the Group. The Group made no changes to its capital management objectives, policies or processes during the years ended 31 December 2019 and 2018.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

24 Remuneration paid to the Company's auditor

	For the year ended 31 December	
	2019 £'000	2018 £'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	60	34
The audit of the Company's subsidiaries pursuant to legislation	120	123
Total audit fees	180	157
Other services	–	13
Total non-audit fees	–	13
Total auditor' remuneration	180	170

25 Share-based payments

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

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

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

Animalcare Group plc Executive Share Option Scheme

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

SAYE Option Scheme

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

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

	EMI		SAYE	
	Options	Price £	Options	Price £
Outstanding at 1st January 2019	80,000	2.014	30,466	2.280
Lapsed during the year	(7,500)	2.145	(23,837)	2.280
Exercised during the year	–	–	–	–
Open at 31 December 2019	72,500	2.00	6,629	2.28

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

	EMI Scheme	SAYE Scheme
Weighted average share price	193p	284p
Weighted average exercise price	193p	228p
Expected volatility	44.70%	40.00%
Expected life	3.0 years	3.1 years
Risk-free rate	0.50%	0.50%

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

Long Term Incentive Plan (“LTIP”)

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

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

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

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

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

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

Inputs into the option pricing models were as follows:

Weighted average share price	£1.60
Weighted average exercise price	£nil
Expected volatility	30.50%
Expected life	3.0 years
Expected dividend yield	2.80%
Fair value per option – EPS tranche	£1.47
Fair value per option – TSR tranche	£0.98
Risk-free rate	0.50%

The Company recognised a total charge in respect of share-based payments of £72k (2018: £12k).

26 Related party transactions

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

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

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

Transactions with shareholders accounted for a total amount of £0k in 2019 (2018: £0k).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27 Overview of consolidated entities

Name	Country of incorporation	Registered address	% equity interest	
			2019	2018
Ecuphar NV	Belgium	Legeweg 157i, 8020 Oostkamp	100%	100%
Orthopaedics.be NV	Belgium	Legeweg 157i, 8020 Oostkamp	100%	100%
Ecuphar BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	100%	100%
Ecuphar Veterinary Products BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	100%	100%
Ornis SA	France	Rue de Roubaix 33, 59200 Tourcoing	100%	100%
Ecuphar GmbH	Germany	Brandteichstraße 20, 17489 Greifswald	100%	100%
Euracon Pharma Consulting und Trading GmbH	Germany	Max-Planck Str. 11, 85716 Unterschleißheim	100%	100%
Ecuphar Veterinaria SA	Spain	Avenida Río de Janeiro, 60 – 66, planta 13, 08016 Barcelona	100%	100%
Ecuphar Italia	Italy	Viale Francesco Restelli, 3/7, piano 1, 20124 Milano	100%	100%
Belphar	Portugal	R. Carlos Alberto da Mota Pinto, Nº 17- 3ªA, 1070-313 Lisabon	100%	100%
Animalcare plc	United Kingdom	Unit 7, 10 Great North Way, York Business Park, Nether Poppleton, York, YO26 6RB	100%	100%
Animalcare Ltd	United Kingdom	Unit 7, 10 Great North Way, York Business Park, Nether Poppleton, York, YO26 6RB	100%	100%

28 Events after balance sheet date

The Directors consider the Covid-19 pandemic to be a material non-adjusting post balance sheet event. The circumstances surrounding the pandemic and the subsequent economic impact did not arise until after 31 December 2019, and therefore no adjustment to the Group's financial statements as at 31 December 2019 has been made. The estimated potential effect on the Group's future financial results and financial position is considered in the Chief Financial Officer's Review on page 18 and within note 3.

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	For the year ended 31 December	
		2019 £'000	2018 £'000
Non-current assets			
Investments in subsidiary companies	6	147,743	147,743
Deferred tax asset	10	5	7
		147,748	147,750
Current assets			
Trade and other receivables	7	2,758	997
Cash and cash equivalents	8	553	1,411
		3,311	2,408
Total assets		151,059	150,158
Current liabilities			
Trade and other payables	9	(368)	(4,096)
		(368)	(4,096)
Net current liabilities		2,943	(1,688)
Total liabilities		(368)	(4,096)
Net assets		150,691	146,062
Capital and reserves			
Called-up share capital	11	12,012	12,012
Share premium account		132,729	132,729
Retained earnings		5,950	1,321
Equity attributable to equity holders of the parent	16	150,691	146,062

The financial statements of Animalcare Group plc, registered number 1058015, were approved by the Board of Directors and authorised for issue on 29 May 2020. They were signed on their behalf by:

Jennifer Winter
Chief Executive Officer

Chris Brewster
Chief Financial Officer



COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended 31 December 2019

	Note	Share	Total £'000	Non- controlling interest £'000	Total equity £'000
Balance at 1st January 2018		11,983	132,588	2,244	146,815
Total comprehensive loss for the period		–	–	1,478	1,478
Transactions with owners of the Company, recognised in equity:					
Dividends paid		–	–	(2,401)	(2,401)
Exercise of share options		29	141	–	169
Share-based payments		–	–	1	1
Balance at 1st January 2019		12,012	132,729	1,321	146,062
Total comprehensive profit for the period	3			7,230	7,230
Transactions with owners of the Company, recognised in equity:					
Dividends paid	5			(2,642)	(2,642)
Share-based payments	12			41	41
Balance at 31 December 2019		12,012	132,729	5,950	150,691

COMPANY CASH FLOW STATEMENT

Period ended 31 December 2019

	Note	For the year ended 31 December	
		2019 £'000	2018 £'000
Comprehensive income for the year before tax		7,122	1,109
Adjustments for:			
Finance (income)/cost		27	(5)
Share-based payment expense	12	41	1
Operating cash flows before movements in working capital		7,190	1,105
(Increase)/decrease in receivables	7	(885)	13
(Decrease)/increase in payables	9	(4,494)	411
Net cash flow from operating activities		1,811	1,529
Investing activities:			
Interest (paid)/received		(27)	5
Net cash (used in)/generated by investing activities		(27)	5
Financing:			
Receipts from issue of share capital	11	–	169
Equity dividends paid	5	(2,642)	(2,401)
Net cash used in financing activities		(2,642)	(2,232)
Net decrease in cash and cash equivalents		(858)	(698)
Cash and cash equivalents at start of year		1,411	2,109
Cash and cash equivalents at end of year		553	1,411
Comprising:			
Cash and cash equivalents	8	553	1,411



NOTES TO FINANCIAL STATEMENTS

Period ended 31 December 2019

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 2019 to 31 December 2019.

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

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present a separate Profit and Loss account in these separate financial statements. The profit dealt with in the financial statements of the Company was £7,230 (2018: £1,478k).

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

Going concern

The Directors have assessed the Company’s ability to continue in operational existence for the foreseeable future. The uncertainty as to the future impact on the Company of the recent COVID-19 outbreak has been considered as part of the assessment performed by the Group. A detailed summary of the scenarios considered by the Group is included in note 3 to the consolidated financial statements. Further stress testing showed a potential more prolonged impact outside of the scenarios modelled by the Group could result in a

potential breach of the Group’s leverage covenant and, as a consequence, there is an inherent uncertainty as to the future effect of COVID-19 on both the Group and Company. However, the Directors are confident that they would be able to obtain a covenant waiver if required and, therefore, the Directors have a reasonable expectation that the Group and Company will have sufficient cash flow and resources to continue operating for at least 12 months from the approval date of these Financial Statements. Accordingly, the Directors continue to adopt the going concern basis of preparation. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Intangible assets

The Company recognises intangible assets at cost less accumulated amortisation and impairment losses. Intangible assets arise both as a result of applying IFRS 3 which requires the separate recognition of intangible assets from goodwill on all business combinations from 1st January 2004, and from the purchase of software (that is separable from any associated hardware).

Intangible assets are amortised on a straight-line basis over their useful economic lives as follows:

Software Estimated useful life – 3 years

Employee benefits – pensions

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

Investments in subsidiaries

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

Dividends

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

Share-based payments

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

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

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

Taxation

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

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

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

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

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

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

Financial instruments

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

Cash and cash equivalents

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

Financial liabilities and equity

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

Finance income and expense

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

New standards adopted as of 2019

The Company applies IFRS 16 from 1st January 2019. Except for IFRS 16, 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 other standard. IFRS 16 has no material impact on the Company financial statements.



NOTES TO FINANCIAL STATEMENTS

Period ended 31 December 2019

2 Non-recurring items

	Note	2019 £'000	2018 £'000
Professional and other fees relating to the reverse acquisition			–
Acquisition expenses		15	–
Restructuring and integration costs		204	218
Compensation for loss of office	4	97	203
Other exceptional costs		8	–
Total exceptional and other items		324	421

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

Restructuring and integration costs totalling £204,000 mainly relate to professional fees in respect of Group-wide employment, legal and tax structuring advice. Prior year restructuring and integration costs totalling £218,000 mainly relate to exceptional recruitment costs in respect of Jenny Winter, CEO, and tax structuring advice.

Compensation for loss of office of £97,000 represents the salary paid to Mr Menneer during his gardening leave from 1st January 2019 to 26th April 2019 (and from 27th April to 31 December 2018 in the comparative period).

3 Total comprehensive income for the year/period

	2019 £'000	2018 £'000
Total comprehensive income for the year/period has been arrived at after charging/(crediting):		
Finance costs/(income)	27	(5)
Dividend income received from subsidiary – Ecuphar NV	7,897	2,247

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

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

	2019 £'000	2018 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	60	34
Total audit fees	60	34

4 Directors' remuneration and interests

Emoluments

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

Year ended 31 December 2019	Salary £'000	Bonus £'000	Company pension contributions £'000	Benefits £'000	Compensation for loss of office £'000	Total £'000
J Boone*	70	–	–	–	–	70
C Brewster	205	41	25	13	–	284
C Cardon	35	–	–	–	–	35
M Coucke*	40	–	–	–	–	40
N Downshire*	40	–	–	–	–	40
J S Lambert* (resigned 25th June 2019)	20	–	–	–	–	20
I D Menneer ¹	–	–	–	–	90	90
E Torr*	40	–	–	–	–	40
J Winter	285	71	–	14	–	370
Total	735	112	25	27	90	989



NOTES TO FINANCIAL STATEMENTS

Period ended 31 December 2019

Year ended 31 December 2018	Salary £'000	Bonus £'000	Company pension contributions £'000	Benefits £'000	Compensation for loss of office £'000	Total £'000
J Boone*	70	–	–	–	–	70
C Brewster	205	–	22	12	–	239
C Cardon	35	–	–	–	–	35
M Coucke*	40	–	–	–	–	40
N Downshire*	40	–	–	–	–	40
J S Lambert* (resigned 25th June 2019)	40	–	–	–	–	40
I D Menneer ¹	32	–	28	3	203	266
E Torr*	40	–	–	–	–	40
J Winter	71	–	–	3	–	74
Total	573	–	50	18	203	844

* Indicates Non-Executive Directors

¹ I D Menneer resigned as a Director of the Company on 26th April 2018 and was placed on gardening leave for his 12 months' notice period. Compensation for loss of office represents the salary paid to Mr Menneer from 1st January 2019 to 17th April 2019 while on gardening leave

² Compensation for loss of office represents the salary paid to Mr Menneer from 27th April 2018 to 31 December 2018 while on gardening leave

The approved bonus awards to C Brewster and J Winter were accrued as at 31 December 2019 and will be settled post year end.

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

Share options

On 6 June 2019, nil-cost options over a total of 254,206 ordinary shares with a nominal value of 20p per share ("the Options") were awarded to certain Executive Directors of the Company pursuant to the Company's Long Term Incentive Plan ("the LTIP"). Full details of the LTIP are disclosed in note 12.

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

PDMR	Options Awarded	Total Options
Jennifer Winter	177,570	177,570
Chris Brewster	76,636	76,636

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

5 Dividends

	2019 £'000	2018 £'000
Ordinary final dividend paid for the period ended 31 December 2017 of 2.0p per share	–	1,200
Ordinary interim dividend paid for the period ended 30th June 2018 of 2.0p per share	–	1,201
Ordinary final dividend paid for the period ended 31 December 2018 of 2.4p per share	1,441	–
Ordinary interim dividend paid for the period ended 30th June 2019 of 2.0p per share	1,201	–
	2,642	2,401

6 Investments in subsidiaries

Subsidiary undertakings

Cost	2019 £'000
At 1st January 2019 and 31 December 2019	147,743

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

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

7 Other financial assets

Trade and other receivables

	2019 £'000	2018 £'000
Corporation tax – Group relief	1,089	979
Other receivables	871	3
Prepayments and accrued income	32	15
Amounts due from subsidiaries	766	–
	2,758	997

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



NOTES TO FINANCIAL STATEMENTS

Period ended 31 December 2019

8 Cash and cash equivalents

	2019 £'000	2018 £'000
Cash and cash equivalents	553	1,411

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

9 Other financial liabilities

	2019 £'000	2018 £'000
Trade payables	248	255
Amounts payable to subsidiaries	–	3,396
Other taxes and social security costs	61	82
Other creditors	11	328
Accruals	48	35
	368	4,096

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

10 Deferred tax

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

	Accelerated tax depreciation £'000	Share-based payments £'000	Other £'000	Total £'000
Balance at 1st January 2018	(5)	(5)	(2)	(12)
Charge/(credit) to income	–	5	–	5
Balance at 31 December 2018	(5)	–	(2)	(7)
Charge/(credit) to income	2	–	–	2
At 31 December 2019	(3)	–	(2)	(5)

Deferred tax balances have been calculated at an effective rate of 17%, being the substantively enacted rate at 31 December 2019.

11 Share capital

	No.	£'000
Allotted, called up and fully paid at 1st January 2019 and 31 December 2019	60,057,161	12,012

12 Share-based payments

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

Animalcare Group plc Executive Share Option Scheme

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

SAYE Option Scheme

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

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

	EMI		SAYE	
	Options	Price £	Options	Price £
Outstanding at 1st January 2019	80,000	2.014	30,466	2.280
Granted during the period				
Lapsed during the year	(7,500)	2.145	(23,837)	2.280
Exercised during the period				
Open at 31 December 2019				
Exercisable at the end of the year	72,500	2.00	6,629	2.28

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

	EMI Scheme	SAYE Scheme
Weighted average share price	£1.93	£2.84
Weighted average exercise price	£1.93	£2.28
Expected volatility	44.7%	40.0%
Expected life	3.0 years	3.1 years
Risk-free rate	0.5%	0.5%

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

Long Term incentive plan ("LTIP")

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

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

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

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

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



NOTES TO FINANCIAL STATEMENTS

Period ended 31 December 2019

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

Inputs into the option pricing models were as follows:

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

The Company recognised a total charge in respect of share-based payments of £41,000 (2018: £1,000).

13 Related party transactions

Trading transactions

During the years ended 31 December 2019 and 31 December 2018, the following trading transactions took place between the Company and its subsidiaries, Animalcare Ltd and Ecuphar NV.

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

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

Remuneration of key management personnel

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

ADVISERS

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C Cardon
C J Brewster
E Torr
J Boone
J S Lambert
J Winter
Lord Downshire
M Coucke

Secretary

C J Brewster

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